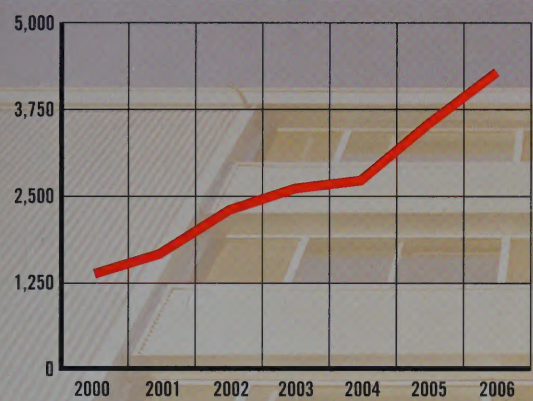
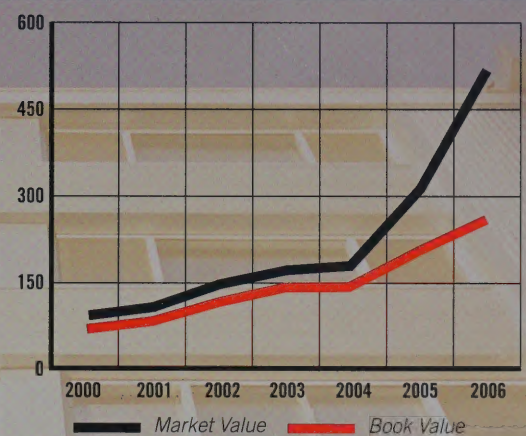


2006
MAINSTREET EQUITY CORP.

Total number of units



Gross book value of portfolio (\$ million)



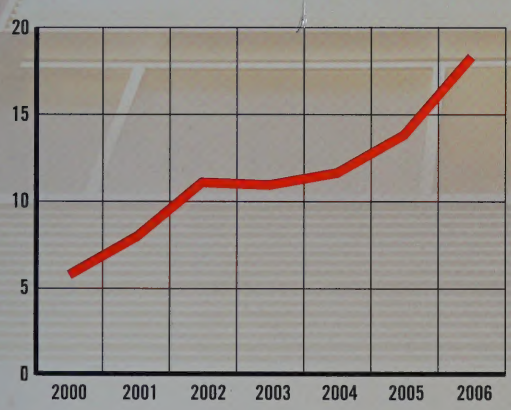
SHARE
PRICE

▲
89%

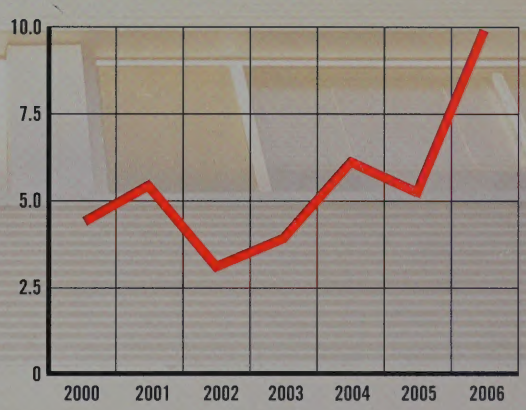
TOTAL
NUMBER
OF UNITS

▲
21%

Net operating income



Share price (\$ per share as at September 30)



NET
OPERATING
INCOME

▲
32%

MARKET
VALUE OF
PORTFOLIO

▲
68%

TSX SYMBOL: MEQ

Mainstreet Equity Corp. is a Canadian real estate company focused on acquiring and managing mid-market rental apartment buildings in major markets across Canada. Founded in 1997, Mainstreet creates value by purchasing under-performing properties, renovating them to a branded standard, improving operating efficiencies and repositioning them in the market for greater returns.

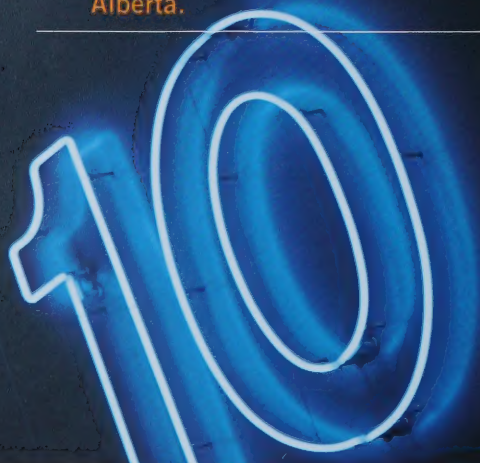
GROSS
BOOK
VALUE OF
PORTFOLIO

▲
22%

WHY THE MID-MARKET? MORE OPPORTUNITY, LESS COMPETITION,

TOP TEN REASONS TO INVEST IN MAINSTREET

1. **Proven management team.** The people managing Mainstreet's business have a depth of experience in the multi-family sector and know how to make profitable acquisitions.
2. **Stability.** Mainstreet has an impeccable track record of creating value through its proven operating model (The Value Chain).
3. **Renewable cash flow.** The company is well-capitalized and able to fund its growth plans.
4. **Excellent growth potential.** The mid-market, which represents about 60% of rental units in Mainstreet's focus markets, presents abundant investment opportunities and limited competition.
5. **Market strength.** Present in diverse markets across Canada, and heavily levered to booming Alberta.
6. **Attractive investment.** Shares are trading below estimated net asset value.
7. **Management alignment.** The CEO is highly vested in the success of the company, owning more than 40% of company shares.
8. **Track record of growth.** Since 1998, Mainstreet has achieved a 53% average compound annual growth rate in the value of its portfolio.
9. **Positioned for increased revenues.** Additional significant rent increases are pending, and 29% of the portfolio is expected to earn attractive revenues when renovated units are returned to the market after stabilization.
10. **Competitive advantage.** In addition to all of the above, Mainstreet has the necessary elements for success – infrastructure, software system, capital, expertise in the renovation process, and proven experience managing properties cost-effectively.



TRADING VOLUMES OF MEQ SHARES JUMPED FROM 863,412

WHY MAINSTREET INVESTS IN APARTMENTS

Need

There will always be a need for comfortable, affordable rental housing.

Encouraging demographics

People who prefer rental housing – including singles, the 50-65 age group and “echo boomer” generation (ages 20-29) – are increasing in numbers, creating greater demand for multi-family rental units over the next decade. The number of echo boomers alone is projected to rise by about 200,000. (*Statistics Canada*)

As well, immigration into Canada continues to be strong with an expected increase of about 4.1% to 220,000 net migrants in 2007. This is expected to add to housing demand with the majority of new immigrants initially settling in rental accommodations. Alberta has seen unprecedented levels of interprovincial migration in 2005 and 2006. Although this will lessen in 2007, the movement of workers from other provinces to Alberta will continue and is expected to continue to boost demand for rental housing. (*CMHC*)

Market is undervalued

The multi-family rental investment market trades below replacement costs.

CMHC-insured financing

Insured mortgage loans at attractive interest rates are available to multi-family investors through the Canada Mortgage and Housing Corporation. (*CMHC*)

Continued low interest rates

Mortgage interest rates are expected to remain near current low levels through 2007. (*CMHC*)

Stable cash flow

The apartment rental business provides a source of predictable cash flow because most operating and financial expenses are fixed and stable. And because the business is based on individual tenancy agreements, when a company like Mainstreet achieves critical mass, individual vacancies do not have a significant effect on overall cash flow.

Consolidation opportunities in the mid-market

Because of a fragmented marketplace featuring a mass of individual owners, there is ample opportunity to consolidate assets for more profitable growth.

Classified as a “safe asset”

In 2005, Moody's Investors Service ranked the multi-family rental market at 95 points out of 100.

Declining vacancy rates

Vacancy rates in Mainstreet's focus markets have been decreasing – most at a gradual pace, but much more rapidly and dramatically in Alberta.

MESSAGE TO SHAREHOLDERS STRONG GROWTH CONTINUES IN 2006

MARKET VALUE BY CITY (\$MILLION)

TOTAL VALUE: \$520 MILLION



GEOGRAPHIC DISTRIBUTION OF UNITS

TOTAL NUMBER OF
MULTI-FAMILY UNITS:
4,286



OUR STRATEGY

Mainstreet builds value by acquiring underperforming mid-market apartment buildings, renovating them, improving operating efficiencies, securing attractive financing and repositioning the properties in the market for higher revenues. Occasionally, Mainstreet will divest properties to redirect capital into newer, high potential properties.



Bob Dhillon, President & CEO

I am pleased to announce that the appraised market value¹ of Mainstreet's portfolio exceeded the half-billion-dollar mark in 2006. In the past eight years Mainstreet has grown its portfolio from 272 to 4,286 apartment units, raised the portfolio's gross book value from \$11 million to \$250 million, and increased the portfolio's appraised market value from \$17 to \$520 million¹. This represents an average compound annual growth in value of 53%.

PERFORMANCE HIGHLIGHTS FOR 2006²

Strong growth continues. Mainstreet's portfolio grew by 21% to 4,286 units at the end of fiscal 2006 from 3,550 units at year-end 2005. This represents 802 additional rental units acquired in Edmonton, Alberta and Surrey, British Columbia, and a disposal of 66 non-strategic rental units in Red Deer, Alberta. The Edmonton portfolio grew by 61% with 652 units acquired at an average price of \$46,000 per door.

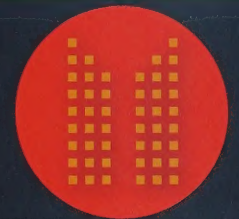
Rental revenues up. Total rental revenues were up 32% to \$30.9 million in 2006 from \$23.5 in 2005. The vibrant Alberta economy contributed a 22% increase in Mainstreet's rental income from Alberta properties – \$19.7 million in 2006 compared to \$16.1 million in 2005. At the same time, the Alberta vacancy rate dropped to 6.3% in 2006 from 7.4% in 2005, while Calgary vacancies fell to an all-time low of 2% in 2006 compared to 6.4% in 2005.

"Same assets" rental revenue increased by 9% to \$22.2 million in 2006 from \$20.4 million in 2005.

Net operating income rises. Net operating income from continuing operations jumped 32% to \$18.3 million in 2006 from \$13.8 million in 2005. Increases in NOI were reported across all operating regions.

"Same assets" net operating income increased by 15% to \$3.9 million in 2006 from \$12.1 million in 2005.

continued next page...



THE MAINSTREET BRAND

When tenants and prospective tenants see the Mainstreet logo on the side of a building, they know what to expect – attractive, quality interior finishings, improved and well-maintained exteriors and common areas, security system, energy efficient technology – features that are uncommon in the mid-market.

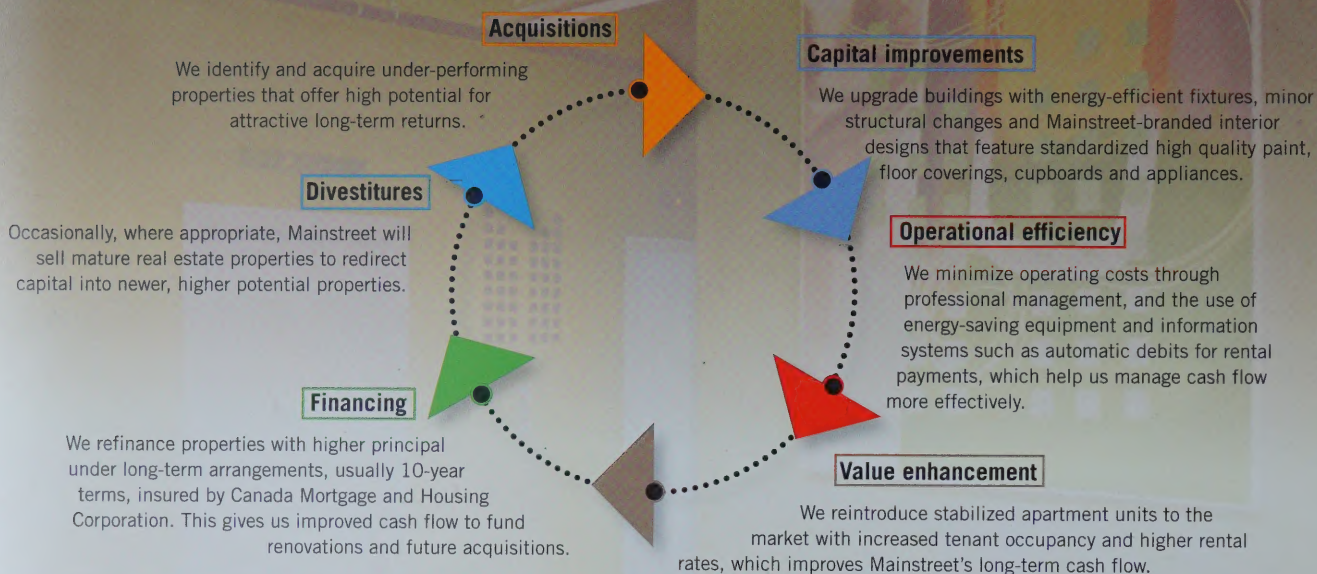
1. MARKET VALUE OF THE PROPERTIES HELD ON SEPTEMBER 30, 2006 WAS DETERMINED BY WERNICK OMURA LIMITED, AN INDEPENDENT REAL ESTATE APPRAISAL FIRM IN CALGARY, ALBERTA, ESTABLISHED IN 1998. THE APPRAISAL REPORT WAS COMPLETED ON DECEMBER 7, 2006 BY TONY OMURA, PRESIDENT, WHO IS AN ACCREDITED APPRAISER CANADIAN INSTITUTE (AACI). MARKET VALUE IS DETERMINED ON AN INCOME APPROACH BASIS, WHICH IS BASED ON AN ESTIMATED MARKET RENTAL INCOME, NET OPERATING INCOME AND MARKET CAP RATE OF INDIVIDUAL PROPERTIES IN EACH MARKET AS OF SEPTEMBER 30, 2006.

THE ACTUAL SELLING VALUE OF THESE PROPERTIES MAY BE SUBSTANTIALLY DIFFERENT AND WILL DEPEND ON MARKET CONDITIONS AT THE TIME OF THE SALE.

2. MAINSTREET'S 2006 FISCAL YEAR REFERS TO THE PERIOD FROM OCTOBER 1, 2005 TO SEPTEMBER 30, 2006.

HOW WE CREATE VALUE:

THE VALUE CHAIN



Funds from operations improve. In 2006, FFO from continued operations before gain on disposition was \$1.3 million (\$0.14 per share), an increase of 32% compared to \$1 million (\$0.11 per basic share) in 2005. Total FFO was \$1.8 (\$0.20 per basic share), a 75% increase compared to \$1 million (\$0.11 per basic share) in 2005. Funds from operations generated from stabilized properties, excluding the cost of refinancing, amounted to \$4.9 million (\$0.53 per basic share).

Refinancing benefits. Mainstreet refinanced \$30-million of CMHC-insured mortgage loans prior to maturity with an average interest rate of 5.36% to 4.9%, which will result in annual savings of approximately \$200,000 over the next 10 years. This also generated additional funds of \$11 million, which will be used to fund future growth. The refinancing also increased the average maturity term of our loan portfolio to 4.43 years from 3.11 years, which may help reduce interest risk exposure over the next 10 years.

Share price climbs. On the strength of our past performance, valuation of our business and optimism for continued growth, Mainstreet's share price rose from

\$5.23 at the opening of the fiscal year to \$9.91 at fiscal year-end. Market capitalization rose from \$48 million at the opening of the fiscal year to \$94 million at closing. In December, one of the industry analysts following the Corporation published a "Top Pick-Average Risk Rating" and forecasted a 12-month target share price of \$19.

CHALLENGES

Mainstreet continued to face ongoing challenges in 2006, including:

- Increased human resource costs and cycle time of renovations, especially in the severely tight labour market of Alberta. We are addressing this problem by working to mobilize our workers across the country.
- Increased cost of materials, which increase the cost of renovations.
- Difficulty expanding in Calgary due to dramatically escalating property prices. On the bright side, existing Calgary-based properties are expected to contribute significantly to our revenue stream for the foreseeable future.



OUTLOOK

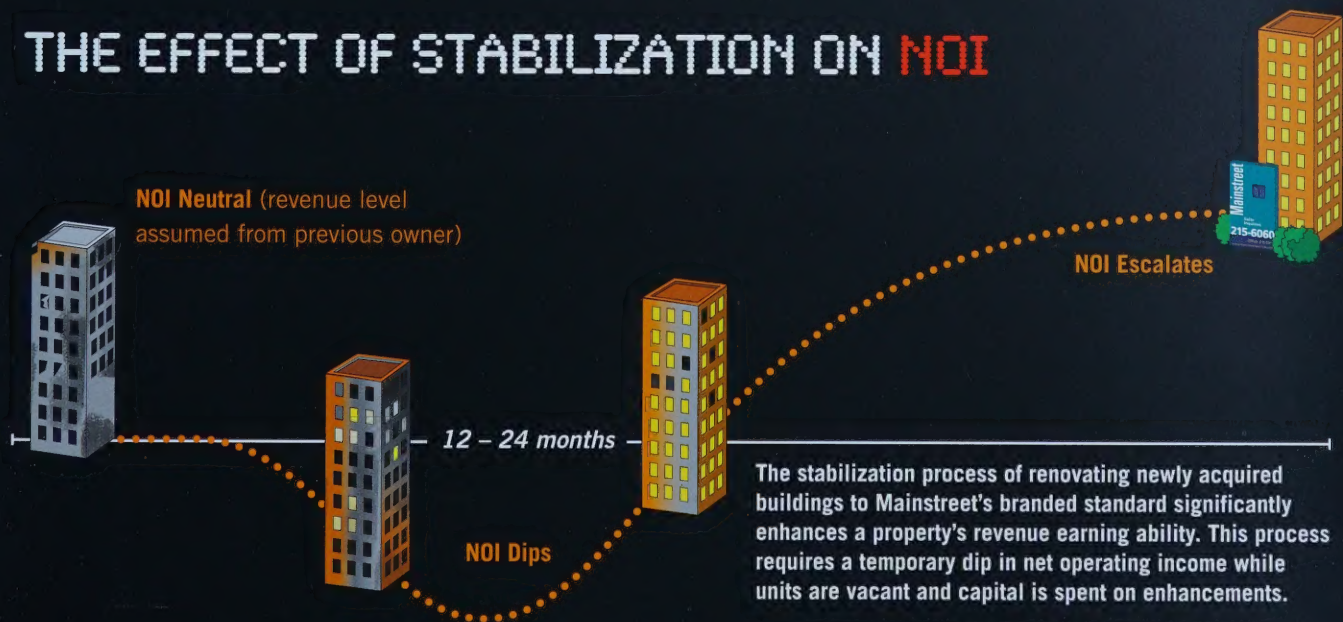
In 2007, Mainstreet will focus on these objectives:

- **Continued growth.** Using our cash surplus, Mainstreet will concentrate on acquiring properties in Vancouver/Lower Mainland, Edmonton, Greater Toronto Area and our new core area in Saskatoon, Saskatchewan, which we announced subsequent to fiscal year-end 2006. We will continue to stabilize our newly acquired properties as quickly as possible to bring added rental revenues on-stream.
- **Attractive refinancing.** Mainstreet has \$73 million (34% of mortgage loans) in floating loans at short-term interest rates, which are approximately 2.8% higher than the long-term CMHC rate. We also have approximately \$49 million (23% of mortgage loans) maturing over the next three to 24 months. We plan to refinance most of these mortgage loans with longer-term CMHC-insured mortgages in 2007, at interest rates lower than the current commitments on those loans. Mortgage rates peaked in September 2006, but are expected to remain low, easing by up to 75 basis points over the next two to three quarters.³
- **Rental increases.** As of October 1, 2006, we had already increased the rental rate of the Calgary portfolio by about 39% compared to 2005. Ninety-three per cent of the rent increase has been implemented during the first two months of fiscal year 2007. We are currently reviewing the rental rates of our Edmonton portfolio and expect to have a substantial increase in those rental rates as well. Implementation of the Edmonton rent increase is expected in the second quarter of 2007. Rental income in the British Columbia and Ontario portfolios is also expected to grow when more suites are renovated and introduced to the market at higher rental rates.

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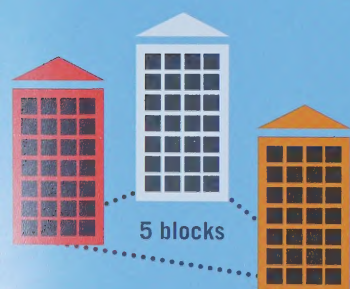
3. DATA SOURCE: CANADA MORTGAGE AND HOUSING MARKET OUTLOOK, FALL 2006.

THE EFFECT OF STABILIZATION ON NOI



CLUSTERING

Mainstreet improves operating efficiencies by "clustering" our properties. That means we acquire buildings generally within a five-block radius of buildings we already own. This allows us to achieve economies of scale that many of our mid-market competitors cannot, such as lower superintendent and maintenance costs, reduced advertising expense, efficient technology-based head office administration, and efficient marketing and rental process.



I am confident we will achieve these objectives because we have proven ability to create value, and market fundamentals are stronger than ever. For example, Calgary's current vacancy rate was expected to drop to 0.6% by October 2006 (it averaged 1.6% in 2005). With only about 46,000 units of apartment rental inventory (as of October 2005), and an influx of close to 26,000 new people, we believe the market fundamentals are getting even stronger for 2007.⁴

Similar conditions are expected for Edmonton, with increased demand and a forecast vacancy rate of 1.2% in 2007 compared to 4.5% in October 2005. We believe the rental market in Vancouver also will remain tight, with the vacancy rate expected to drop slightly to 1.0% in 2007.⁵

In all kinds of market conditions, we are confident we have the ability to buy underperforming assets below replacement costs, and add value by repositioning and branding properties using our Value Chain business model. That's how we will continue to increase our asset value, and how we will achieve our goal of being the mid-market leader in our industry sector.

In closing, I'd like to thank our board, management and staff for their contributions to Mainstreet's success, and I look forward to continued dynamic growth in 2007.

Bob Dhillon
President and CEO

December 15, 2006
Calgary, Alberta

4 & 5. DATA SOURCE: CANADA MORTGAGE AND HOUSING MARKET OUTLOOK, FALL 2006.

OPERATIONAL EFFICIENCIES

One of the ways Mainstreet builds value is by implementing operational efficiencies during the stabilization process, and using technology and efficient processes to manage the business effectively. This includes:

- Energy efficient appliances
- Ultra-low flush toilets
- Taps and shower heads that reduce water usage
- High-efficiency lighting
- Heat conserving windows
- Automatic rent withdrawal
- Information management systems
- One property manager, leasing manager, groundskeeper, maintenance person and marketing manager per cluster of buildings

2006 PERFORMANCE HIGHLIGHTS

Fiscal year ending September 30, 2006

(thousands of dollars except per share amounts)

	2006	2005	2004	% change 2005	% change 2004
			<i>restated</i>		
Gross revenue	\$ 31,482	\$ 24,204	\$ 19,339	30%	63%
Net (loss) income					
– from continuing operations	\$ (3,544)	\$ (3,449)	\$ (1,520)	(3%)	(133%)
– from discontinued operations	430	\$ (20)	\$ (58)	2,250%	841%
Total net loss	\$ (3,114)	\$ (3,469)	\$ (1,578)	10%	(97%)
Funds from operations ¹					
– from continuing operations excluding gains on disposition	\$ 1,269	\$ 965	\$ 2,246	32%	(44%)
– from discontinued operations excluding gains on disposition	\$ (11)	\$ 21	\$ (23)	(152%)	52%
– from gain on disposition	\$ 582	\$ 64	–	809%	–
Total funds from operations	\$ 1,840	\$ 1,050	\$ 2,223	75%	(17%)
Net operating income ² from continuing operations	\$ 18,257	\$ 13,813	\$ 11,313	32%	61%
Net operating margin from continuing operations (%)	59%	59%	59%	–	–
EBITDA from continuing operations ³	\$ 15,837	\$ 12,464	\$ 9,823	27%	61%
Net loss per share					
– basic from continuing operations	\$ (0.38)	\$ (0.38)	\$ (0.17)	–	(124%)
Net income per share					
– basic from discontinued operations	0.05	–	–	–	–
Net loss per share	\$ (0.33)	\$ (0.38)	\$ (0.17)	13%	(94%)
Funds from operations per share					
– basic from continuing operations	\$ 0.14	\$ 0.11	\$ 0.24	27%	(42%)
Funds from operations per share					
– basic from discontinued operations	\$ 0.06	–	–	–	–
Funds from operations per share					
– basic	\$ 0.20	\$ 0.11	\$ 0.24	82%	(17%)

1. Funds from operations ("FFO") are calculated as net earnings before the non-cash portion of debenture interest, depreciation of real estate properties and future income taxes. FFO is a widely accepted supplemental measure of a Canadian real estate company's performance, but is not a recognized measure under Canadian generally accepted accounting principles ("GAAP"). The GAAP measurement most directly comparable to FFO is net income (for which reconciliation is provided below). FFO should not be construed as an alternative to net income or cash flow from operating activities, determined in accordance with GAAP, as an indicator of Mainstreet's performance. Readers are cautioned that FFO may differ from similar calculations used by other comparable entities.

2. Net operating income is rental income minus property operating expenses including utility rebate. It does not include financing costs, general and administrative expenses or depreciation and amortization expenses. It is used by Mainstreet to measure its operational performance. Net operating income is not a recognized measure under GAAP. The

GAAP measure most directly comparable to it is net income. Net operating income should not be construed as an alternative to net income determined in accordance to GAAP. Readers are cautioned that net operating income may differ from similar calculations used by other comparable entities.

3. EBITDA is earnings before interest, taxes, depreciation and amortization and is used by Mainstreet to measure its financial performance. EBITDA is not, however, a recognized measure under GAAP. Management believes EBITDA is a useful supplemental measure to net earnings, providing investors with an indicator of cash available for distribution prior to debt service, capital expenditures and income taxes. The GAAP measure most directly comparable to EBITDA is net income. EBITDA should not be construed as an alternative to net income determined in accordance to GAAP. Readers are cautioned that EBITDA may differ from similar calculations used by other comparable entities.

Investor Relations: Bob Dhillon Tel: 403 215-6063 Fax: 403 264-8870 bdhillon@mainst.biz

CORPORATE INFORMATION

Officers

President and CEO

Bob Dhillon
Calgary, AB

Secretary

Joe Amantea
Calgary, AB

Chief Financial Officer

Johnny Lam
Calgary, AB

VP, Operations

Don Murray
Calgary, AB

Board of Directors

Joe Amantea
Calgary, AB

Darrell Cook
Calgary, AB

Bob Dhillon
Calgary, AB

Rich Grimaldi
Westport, CT

Lawrence Tapp
Langley, BC

Directors' Committees

Executive Committee

Bob Dhillon
Calgary, AB

Joe Amantea
Calgary, AB

Darrell Cook
Calgary, AB

Audit Committee

Chair
Lawrence Tapp
Langley, BC

Darrell Cook
Calgary, AB

Rich Grimaldi
Westport, CT

Human Resource Committee

Chair
Joe Amantea
Calgary, AB

Rich Grimaldi
Westport, CT

Lawrence Tapp
Langley, BC

Investor Relations

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Tel: 403 215-6063
Fax: 403 264-8870
bdhillon@mainst.biz

Financial Inquiries

Johnny Lam
Tel: 403 215-6067
Fax: 403 266-8867
jlam@mainst.biz

Registrar & Transfer Agent

Computershare
o/a Montreal Trust
Company of Canada
#600, 530 – 8 Ave SW
Calgary, AB

Auditors

Deloitte & Touche LLP
3000 Scotia Center
700 – 2 Street SW
Calgary, AB

Solicitors

Warren Tettensor
Amantea LLP
1413 – 2 Street SW
Calgary, AB

Borden, Ladner & Gervais
1000 Canterra Tower
400 Third Avenue SW
Calgary, AB

Banker

TD Canada Trust
335 – 4 Avenue SW
Calgary, AB

Stock Exchange

Toronto Stock Exchange
(Trading Symbol: MEQ)

Head Office

Mainstreet Equity Corp.
Suite 100
1122 – 8 Avenue SW
Calgary, AB T2P 1J5

Tel: 403 215-6060
Fax: 403 266-8867
mainstreet@mainst.biz

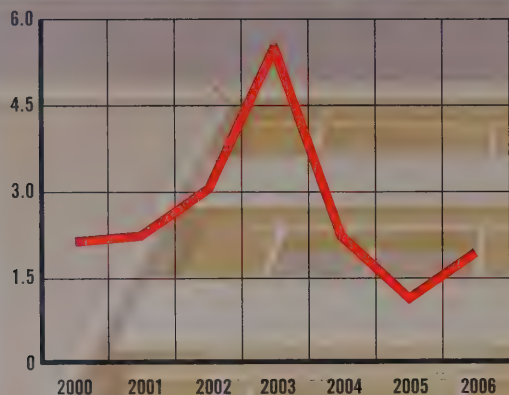
www.mainst.biz

Forward-looking Statements

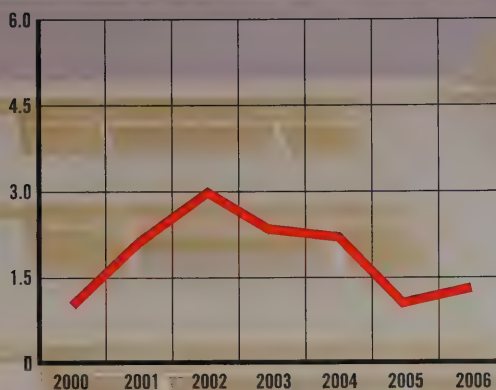
The annual report, including the letter to shareholders and management's discussion and analysis, may contain forward-looking statements that involve risks and uncertainties regarding the outlook for Mainstreet's business and results of operation. The nature of these risks and uncertainties could cause actual results, performance or achievements to differ materially from those indicated. Management believes that the expectations reflected in its forward-looking statements are reasonable but no assurance can be given that the expectations will prove to be correct and the forward-looking statements in this annual report should not be unduly relied upon.

Design & Production
ion communications

Funds from operations (\$ million)



Funds from continued operations before gains on disposition (\$ million)

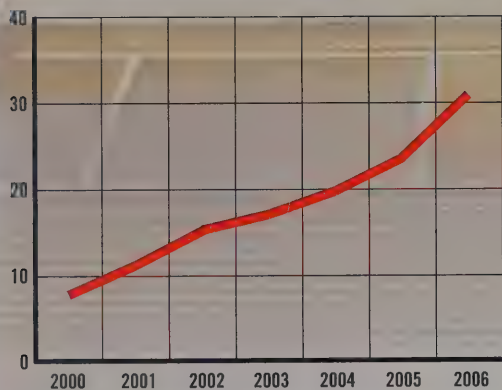


FFO
▲
75%

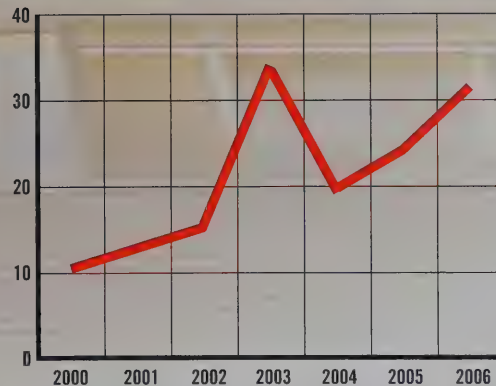
FFO
BEFORE GAIN
ON DISPOSITION

▲
32%

Rental revenue (\$ million)



Gross revenue including sale of real estate property and interest income (\$ million)



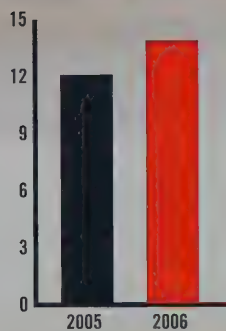
GROSS
REVENUE

▲
30%

RENTAL
REVENUE

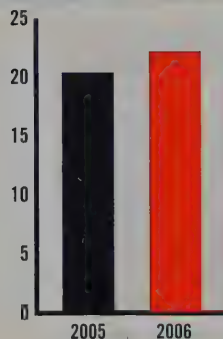
▲
32%

Same assets net operating income (\$ million)



▲
15%

Same assets rental revenue (\$ million)



▲
9%

Management's
Discussion and Analysis

Financial Statements &
Notes to Financial Statements

2006 Annual Report

MAINSTREET EQUITY CORP.

Management's Discussion and Analysis

The following management's discussion and analysis "MD&A" provides an explanation of Mainstreet Equity Corp.'s ("Mainstreet" or "Corporation") financial condition and results of operations for the fiscal year ended September 30, 2006. The results from fiscal year 2006 are directly comparable with those from fiscal year 2005. This MD&A should be read in conjunction with the Corporation's audited financial statements and the accompanying notes included in the annual report. This MD&A is intended to provide information about the Corporation's performance, financial position and outlook, and was prepared as of December 8, 2006. All amounts expressed are in Canadian dollars.

In various places in this MD&A, management discusses its expectations regarding future performance. These "forward-looking" statements are based on current available competitive, financial and economic data and operating plans, which are subject to risks and uncertainties. Forward-looking statements include information concerning possible or assumed future results of operations or financial position of the Corporation, as well as statements preceded by, followed by, or that include the words "believes", "expects", "anticipates", "estimates", "projects", "intends", "should" or similar expressions. These statements, by their very nature, are not guarantees of the Corporation's future operational or financial performance, and are subject to risks and uncertainties and other important factors that could cause the Corporation's actual results, performance, prospects or opportunities to differ materially from those expressed in, or implied by, these forward-looking statements. Management believes the expectations reflected in its forward-looking statements are reasonable, but no assurance can be given that expectations will prove to be correct, and forward-looking statements in this MD&A should not be unduly relied upon. Forward-looking statements speak only as of the date of this MD&A, and actual results could differ materially from those anticipated in forward-looking statements as a result of a number of factors. Investors should not place undue reliance on forward-looking statements because the plan, intentions or expectations on which they are based may not occur.

As of the date of filing this MD&A, management believes the expectations reflected in its forward-looking statements are still reasonable and the actual results to date do not differ materially from those anticipated.

Business Overview

Based in Calgary, Alberta, Mainstreet Equity Corporation ("Mainstreet" or the "Corporation") is a Canadian real estate corporation focused on the acquisition, redevelopment, repositioning and management of mid-market rental apartment buildings in five major Canadian markets: Vancouver/Lower Mainland, Calgary, Edmonton, Saskatoon and the Greater Toronto Area.

The total portfolio includes 4,286 multi-family residential units (3.3 million square feet), consisting of townhouses, garden-style apartments, and mid-rise and high-rise apartments. As of September 30, 2006, 88% of these units were rented, 7% were being renovated and the remainder were vacant because of market conditions. Since 1997, the Corporation's portfolio has increased from 10 buildings to 89 buildings, while the appraised value of properties within this portfolio has grown from about \$17 million to more than \$520 million as of September 30, 2006.¹

Mainstreet is listed on the Toronto Stock Exchange ("TSX") under the symbol "MEQ".

1. Market value of the properties held on September 30, 2006 was determined by Wernick Omura Limited, an independent real estate appraisal firm in Calgary, Alberta, established in 1998. The appraisal report was completed on December 7, 2006 by Tony Omura, President, who is an Accredited Appraiser Canadian Institute (AACI). Market value is determined on an income approach basis, which is based on an estimated market rental income, net operating income and market cap rate of individual properties in each market as of September 30, 2006.

The actual selling value of these properties may be substantially different and will depend on market conditions at the time of the sale.

Business Strategy

Mainstreet's goal is to become the leading provider of affordable mid-sized, mid-tiered rental accommodations in Canada. The Corporation uses the following business strategy to achieve this goal:

- Identify and buy under-performing rental units at prices well below replacement costs;
- Increase the asset value of its portfolio by renovating acquired properties and repositioning a branded product in the market for higher rents;
- Minimize operating costs through professional management, efficient technology and energy-saving equipment;
- Maintain and build customer loyalty through high levels of service; and
- Maintain a sound capital structure with access to capital markets.

Review of Financial and Operating Results

SUMMARY OF FINANCIAL RESULTS

(Fiscal year ending September 30, 2006)

<i>(thousands of dollars except per unit data)</i>	2006	2005	2004 <i>restated</i>	% change from 2005	% change from 2004
Gross revenue	\$ 31,482	\$ 24,204	\$ 19,339	30%	63%
Net (loss) income					
– from continuing operations	\$ (3,544)	\$ (3,449)	\$ (1,520)	(3%)	(133%)
– from discontinued operations	430	\$ (20)	\$ (58)	2,250%	841%
Total net loss	\$ (3,114)	\$ (3,469)	\$ (1,578)	10%	(97%)
Funds from operations ¹					
– from continuing operations excluding gains on disposition	\$ 1,269	\$ 965	\$ 2,246	32%	(44%)
– from discontinued operations excluding gains on disposition	\$ (11)	\$ 21	\$ (23)	(152%)	52%
– from gain on disposition	\$ 582	\$ 64	–	809%	–
Total funds from operations	\$ 1,840	\$ 1,050	\$ 2,223	75%	(17%)
Net operating income ² from continuing operations	\$ 18,257	\$ 13,813	\$ 11,313	32%	61%
Net operating margin from continuing operations (%)	59%	59%	59%	–	–
EBITDA from continuing operations ³	\$ 15,837	\$ 12,464	\$ 9,823	27%	61%
Net loss per share					
– basic from continuing operations	\$ (0.38)	\$ (0.38)	\$ (0.17)	–	(124%)
Net income per share					
– basic from discontinued operations	0.05	–	–	–	–
Net loss per share	\$ (0.33)	\$ (0.38)	\$ (0.17)	13%	(94%)
Funds from operations per share					
– basic from continuing operations	\$ 0.14	\$ 0.11	\$ 0.24	27%	(42%)
Funds from operations per share					
– basic from discontinued operations	\$ 0.06	–	–	–	–
Funds from operations per share					
– basic	\$ 0.20	\$ 0.11	\$ 0.24	82%	(17%)

1. Funds from operations ("FFO") are calculated as net earnings before the non-cash portion of debenture interest, depreciation of real estate properties and future income taxes. FFO is a widely accepted supplemental measure of a Canadian real estate company's performance, but is not a recognized measure under Canadian generally accepted accounting principles ("GAAP"). The GAAP measurement most directly comparable to FFO is net income (for which reconciliation is provided below). FFO should not be construed as an alternative to net income or cash flow from operating activities, determined in accordance with GAAP, as an indicator of Mainstreet's performance. Readers are cautioned that FFO may differ from similar calculations used by other comparable entities.

2. Net operating income is rental income minus property operating expenses including utility rebate. It does not include financing costs, general and administrative expenses or depreciation and amortization expenses. It is used by Mainstreet to measure its operational performance. Net operating income is not a recognized measure under GAAP. The GAAP measure most directly comparable to it is net income. Net operating income should not be construed as an alternative to net income determined in accordance to GAAP. Readers are cautioned that net operating income may differ from similar calculations used by other comparable entities.

3. EBITDA is earnings before interest, taxes, depreciation and amortization and is used by Mainstreet to measure its financial performance. EBITDA is not, however, a recognized measure under GAAP. Management believes EBITDA is a useful supplemental measure to net earnings, providing investors with an indicator of cash available for distribution prior to debt service, capital expenditures and income taxes. The GAAP measure most directly comparable to EBITDA is net income. EBITDA should not be construed as an alternative to net income determined in accordance to GAAP. Readers are cautioned that EBITDA may differ from similar calculations used by other comparable entities.

Mainstreet reported a net loss of \$3.54 million (\$0.38 per share) from continuing operations in 2006, compared with a net loss of \$3.45 million (\$0.38 per share) in 2005.

A key performance measure of real estate companies is the cash flow or funds generated from operations (FFO), defined in the footnote above. Mainstreet generates FFO from two sources: rental income from properties and the periodic sale of properties. Proceeds from these occasional sales are generally reinvested in properties with higher potential for long-term returns.

For continuing operations, FFO before gain on disposition increased by 32% from \$965,000 in 2005 to \$1,269,000 in 2006. Overall FFO including funds from discontinued operations and net gain on disposition jumped by 75% in 2006, an increase of \$790,000. This reflects an increase from \$1,050,000 in 2005 to \$1,840,000 in 2006. The increase in FFO is due mainly to increased rental rates for renovated units, and an overall increase in rental rates combined with a decrease in vacancy rates in Alberta, particularly in Calgary as a result of the booming provincial economy.

FUNDS FROM OPERATIONS

<i>(thousands of dollars)</i>	2006	2005	% change
Net (loss) from continuing operations	\$ (3,544)	\$ (3,449)	
Net gain on disposition included in continuing operations	–	(64)	
Non-cash portion of debenture interests	510	457	
Depreciation	6,443	5,210	
Future income tax	(2,140)	(1,189)	
Funds from operations from continuing operations	1,269	965	32%
Funds from operations from discontinued operations	(11)	21	(152%)
Funds from operations before gain on disposition	1,258	986	28%
Funds from operations from gain on disposition	582	64	809%
Total funds from operations	\$ 1,840	\$ 1,050	75%

Mainstreet's financial performance has been and will continue to be affected adversely by the following factors that result from rapid growth and costs associated with the property stabilization process. Stabilization refers to renovating and improving operating efficiencies of acquired properties and repositioning them in the market for higher rents and improved asset value. The Corporation's portfolio increased by 21% to 4,286 units as of September 30, 2006 from 3,550 units as of September 30, 2005. The proportion of non-stabilized portfolio (not yet renovated) compared to stabilized portfolio (renovated and returned to the market) increased from 32% to 41%.

- All acquired properties needed substantial exterior and interior renovations. During stabilization, the Corporation's financial performance is affected adversely by higher vacancy rates and lower rental income, as well as higher operational costs, such as bad debts and marketing expenses. As more units are stabilized, the Corporation expects to strengthen financial performance by offsetting high operating expenses with additional rental revenues generated in the future. Generally, the adverse financial impact of stabilization has been reduced somewhat since the Corporation changed its accounting policy in 2005 to account for some of its operating and finance costs incurred during the renovation process. The policy adopted is consistent with other comparable real estate entities in Canada.

- General and administrative ("G&A") expenses increased due to expansion of Mainstreet's overall portfolio, particularly in cities such as Vancouver/Lower Mainland and Greater Toronto Area where the size of the portfolios is relatively small. As more properties are acquired in the future, G&A expenses on a per unit basis are expected to decrease.
- Labour and material costs for buildings repairs and maintenance have increased substantially due to a shortage of labour and materials in the construction industry across Canada. This trend is expected to continue for the foreseeable future, particularly in Alberta and British Columbia due to the booming economies in these provinces.
- During 2006, Mainstreet refinanced \$30 million of CMHC-insured mortgage loans prior to maturity with an average interest rate of 5.36% to 10-year CMHC-insured mortgages at an average interest rate of 4.9%. As expected, payout penalties, other incurred refinancing costs and increased interest expenses on the additional \$11 million funds raised of approximately \$757,000 have had an adverse effect on financial results for the year, but management strongly believes the strategic, long-term gains significantly outweigh the short-term costs. Long-term benefits of the refinancing include:
 - Lowering of the average interest rate from 5.36% to 4.9% will result in approximately \$200,000 annual savings in interest expenses over the next 10 years;
 - Average maturity term of the loan portfolio increased to 4.43 years from 3.11 years, which reduces the interest risk exposure substantially for the next 10 years; and
 - Refinancing generated additional funds of \$11 million, which will be used for future expansion.

Excluding the cost and additional interest of refinancing, FFO before gain on disposition for 2006 was \$2,015,000 (\$0.22 per share), an increase of 92% compared to \$1,050,000 (\$0.11 per basic share) in 2005.

Effective April 1, 2005, to better reflect the economic impact of property renovations, the Corporation changed its accounting policy with respect to property carrying costs incurred during the period of major renovations to buildings and rental units. Such major renovations usually consist primarily of new flooring, lighting fixtures, appliances, painting and electrical work. Under the new policy, carrying costs consisting of financing and certain operating costs such as property taxes, insurance and utilities, incurred during the period of renovation but in any event no longer than three months, are capitalized as part of real estate property building improvements. Such capitalized costs are amortized over their estimated useful life of five years. The Corporation has applied the new policy retroactively with restatement of prior period financial statements. The cumulative effect of the change in accounting policy is to increase real estate properties and retained earnings, as at September 30, 2006, in the amount of \$1,376,000. The effect of the change on prior years is as follows:

<i>(thousands of dollars)</i>	2006	2005
Increase in real estate properties	\$ 535	\$ 115
Decrease in property operating expense	\$ (335)	\$ (145)
Decrease in finance cost	\$ (447)	\$ (144)
Increase in depreciation	\$ 247	\$ 174
Decrease in net loss	\$ (535)	\$ (115)
Decrease in loss per share		
– basic	\$ (0.06)	\$ (0.01)
– diluted	\$ (0.06)	\$ (0.01)

Revenues

<i>(thousands of dollars)</i>	2006	2005	% change
Rental revenues	\$ 30,905	\$ 23,475	32%
Property dispositions	–	77	–
Interest income	577	652	(12%)
Gross revenues	\$ 31,482	\$ 24,204	30%

Rental income increased by 32% to \$30.9 million in 2006 compared to \$23.5 million in 2005. This resulted mainly from growth in the Corporation's property portfolio, increase in rental rate and decrease in vacancy rate.

Rental Operations

<i>(thousands of dollars except as noted)</i>	2006	2005	% change
Same assets rental revenues	\$ 22,256	\$ 20,411	9%
Acquisition rental revenues	8,649	3,064	182%
Total rental income	\$ 30,905	\$ 23,475	32%
Weighted average number of units	3,925	3,057	28%
Average rental rate per unit per month (dollars)	\$ 656	\$ 640	3%
Weighted average square feet (thousands)	3,043	2,427	25%
Average rental rate per square foot per month (dollars)	\$ 0.85	\$ 0.81	5%

Overall, rental income rose 32% to \$30.9 million (\$656/unit/month) in 2006 from \$23.5 million (\$640/unit/month) in 2005.

Rental revenues from new property acquisitions jumped dramatically by 182% to \$8.6 million as a result of 1,619 units acquired since the financial year ended September 30, 2004.

Rental revenues from "same assets" properties (properties owned for the entire years of 2005 and 2006) increased 9% in 2006 to \$22.2 million from \$20.4 million in 2005. This increase resulted mainly from newly renovated rental units reintroduced into the market, higher rental rates and low vacancy rates for the Alberta portfolio.

Operating Costs

<i>(thousand of dollars)</i>	2006	2005	% change
Same assets operating expenses	\$ 8,362	\$ 8,347	–
Acquisition operating expenses	4,286	1,315	226%
Total operating costs	\$ 12,648	\$ 9,662	31%

Overall, operating costs (after utility rebate¹) increased 31% to \$12.6 million in 2006 compared to \$9.6 million in 2005. Most of this increase was due to the growth in the Corporation's property base, which grew to 4,286 units from 3,550 units in 2005.

Operating costs for "same assets" properties (properties owned for the entire period of 2005 through 2006) totaled \$8.3 million in 2006, which was fairly consistent with 2005 results.

1. Introduced by the Alberta government in 2003 to help consumers with the rising cost of natural gas.

RENTAL OPERATIONS BY PROVINCE

Mainstreet manages and tracks the performance of rental properties in each of its geographic markets. Rental operating results by province are summarized as follows.

ALBERTA

Mainstreet's Alberta operations showed strong growth in 2006 as a result of the province's booming economy. Rental income increased by 22% to \$19.7 million in 2006 compared to \$16.1 million in 2005. The average number of rental units increased by 15% to 2,588 units from 2,253 units in 2006. Vacancies dropped to 6.3% from 7.4% in 2005. Overall, net operating income improved by 26% to \$12.7 million in 2006 from \$10.1 million in 2005. Year-over-year operating margins rose two points to 65% from 63%. These outstanding results were achieved despite the acquisition of 652 non-stabilized units in Alberta during the year.

<i>(thousands of dollars except per unit data)</i>	2006	2005	% change
Rental income	\$ 19,721	\$ 16,133	22%
Operating expenses	6,969	6,000	16%
Net operating income	\$ 12,752	\$ 10,133	26%
Weighted average number of units	2,588	2,253	15%
Average rent per unit per month	\$ 635	\$ 597	6%
Operating costs per unit per month	\$ 224	\$ 222	1%
Average vacancy rate	6.3%	7.4%	(15%)
Operating margins	65%	63%	3%

BRITISH COLUMBIA

Mainstreet's British Columbia operations continued to expand in 2006. The average number of rental units grew by 98% to 785 units in 2006 compared to 396 units in 2005. Rental income increased by 95% to \$5.7 million in 2006 compared to \$2.9 million in 2005. All the newly acquired properties required substantial renovations to raise them to Mainstreet's branded standard. During the stabilization period, the Corporation experienced the associated higher vacancy rates, rent concessions, advertising and bad debt expenses. The operating cost per unit per month increased by 18% to \$271 in 2006 from \$230 in 2005, and the operating margin dropped to 55% from 63% respectively. It is expected it will take approximately 18 months to stabilize the newly acquired properties currently under renovation.

<i>(thousands of dollars except per unit data)</i>	2006	2005	% change
Rental income	\$ 5,716	\$ 2,932	95%
Operating expenses	2,549	1,095	133%
Net operating income	\$ 3,167	\$ 1,837	72%
Weighted average number of units	785	396	98%
Average rent per unit per month	\$ 607	\$ 617	(2%)
Operating costs per unit per month	\$ 271	\$ 230	18%
Average vacancy rate	5.2%	6.6%	(21%)
Operating margins	55%	63%	(13%)

ONTARIO

Mainstreet's Ontario operations continued to grow in 2006. Rental income rose 24%, mainly a result of growth in the Corporation's portfolio in the Greater Toronto Area. The average number of rental units increased by 23% to 582 units in 2006 compared to 474 units in 2005. The average vacancy rate for the year dropped slightly to 17%, but remains high due to continued renovation of existing and newly acquired properties. The operating margin improved slightly to 43% in 2006 compared to 42% in 2005. Furthermore, the rental market condition in Ontario remained soft in 2006.

<i>(thousands of dollars except per unit data)</i>	2006	2005	% change
Rental income	\$ 5,468	\$ 4,410	24%
Operating expenses	3,130	2,567	22%
Net operating income	\$ 2,338	\$ 1,843	27%
Weighted average number of units	582	474	23%
Average rent per unit per month	\$ 783	\$ 775	1%
Operating costs per unit per month	\$ 448	\$ 451	(1%)
Average vacancy rate	17.2%	18.2%	(5%)
Operating margins	43%	42%	2%

GENERAL AND ADMINISTRATIVE EXPENSES

<i>(thousands of dollars except per unit data)</i>	2006	2005	% change
Total	\$ 2,997	\$ 2,078	44%
Per unit per month	\$ 64	\$ 57	12%

General and administrative ("G&A") expenses include corporate costs such as salaries and professional fees. G&A costs increased by 44% to \$3 million in 2006 compared to \$2.1 million in 2005.

This was due mainly to growth in Mainstreet's portfolio to 4,286 units as of September 30, 2006 from 3,550 units as of September 30, 2005, and due to continued increases in legal and professional fees associated with more thorough, timely and accurate reporting requirements of public companies. In the last quarter of 2006, a substantial amount of travel expenses were incurred for meetings with potential Mainstreet investors in Canada and the United States. Monthly G&A costs per unit rose 12% (\$64 per unit) in 2006 compared to \$57 per unit in 2005. As the number of units increases, and economies of scale are achieved, G&A expenses per unit are expected to decline in the future.

FINANCING COSTS

<i>(thousands of dollars except per unit data)</i>	2006	2005	% change
Same assets mortgage interest	\$ 7,121	\$ 7,063	1%
Acquisition mortgage interest ¹	3,219	896	259%
Amortization of finance charges	891	762	17%
Debenture interest	2,896	2,789	4%
Cost and additional interest expenses on refinancing mortgages prior to maturity	757	17	4,353%
Total financing costs	\$ 14,884	\$ 11,527	29%

1. Mortgage interest for properties acquired after the financial year ended September 30, 2004.

Overall, financing costs on long-term debt increased by 29% to \$14.9 million in 2006 compared to \$11.5 million in 2005.

More specifically, financing costs for the year 2006 included:

- “Same assets” mortgage interest – The Corporation pays on debts for properties owned for the entire years of 2005 and 2006. The 2006 expenses were fairly consistent with 2005.
- “Acquisition” mortgage interest – The Corporation pays on debts for properties acquired after the financial year ended September 30, 2004. These expenses were \$3.2 million.
- Amortization of finance charges – These include Canada Mortgage and Housing Corporation (CMHC) insurance premiums paid for CMHC-insured loans, and issuance costs for the convertible debenture.
- Debenture interest – The Corporation pays interest on the convertible debentures issued on October 8, 2004. These interest expenses were \$2.9 million.
- Cost and additional interest expenses of refinancing mortgages prior to maturity were \$757,000.

Capital Investment

Mainstreet’s “Value Chain” business philosophy focuses on investing in its capital assets by renovating newly acquired properties and enhancing operating efficiencies. Each new building and rental unit is upgraded to Mainstreet’s branded standard, which improves the attractiveness of properties to tenants, reduces operating costs and enhances the long-term value of capital assets.

In 2006, the Corporation spent \$5.9 million on property improvements, specifically for exterior upgrades such as new siding and insulation, and interior upgrades such as carpet and paint, new appliances and energy-efficiency measures. This enabled the Corporation to reintroduce 545 renovated apartments, or 13% of the portfolio, into the market at higher rental rates during the year.

About \$7.4 million of renovations are planned for the 2007 fiscal year. These improvements will be financed through existing cash balances, funds from operations and ongoing refinancing of existing properties. With 802 under-performing properties acquired in 2006, substantial renovations will be required to upgrade these properties to Mainstreet’s branded standard. During the renovation period, revenue is expected to be low because these units cannot be rented. The Corporation expects to complete the stabilization of these properties in the next 12 to 18 months. Revenue and income will increase over time when more and more units are renovated and reintroduced to the market at higher rental rates. Uncertainties affecting future revenue and income include turnover rate of the existing tenants, availability of renovation workers, and increase in labour and material costs, all of which will have material impact on the timing and cost of the completion of renovations.

Summary of Quarterly Results

<i>(thousands of dollars except per share amounts)</i>	Sept. 30 2006	June 30 2006	Mar. 31 2006	Dec. 31 2005	Sept. 30 2005	June 30 2005	Mar. 31 2005 <i>restated</i>	Dec. 31 2004 <i>restated</i>
Rental income	\$ 8,563	\$ 8,067	\$ 7,354	\$ 6,921	\$ 6,615	\$ 6,483	\$ 5,336	\$ 5,040
Interest income	177	99	144	128	144	152	189	167
Gains on disposition of real estate property						77		
Total revenue from continuing operations	8,740	8,166	7,498	7,049	6,759	6,712	5,525	5,207
Net loss from continuing operations	(352)	(996)	(1,136)	(1,060)	(1,115)	(497)	(917)	(920)
Net earnings (loss) from discontinued operations net of tax			440	(10)	(6)	(2)	(7)	(5)
Net loss	\$ (352)	\$ (996)	\$ (696)	\$ (1,070)	\$ (1,121)	\$ (499)	\$ (924)	\$ (925)
Earning per share from continuing operations								
– basic & diluted	\$ (0.04)	\$ (0.11)	\$ (0.12)	\$ (0.11)	\$ (0.12)	\$ (0.05)	\$ (0.10)	\$ (0.10)
Earning per share from discontinued operations								
– basic & diluted	\$ –	\$ –	\$ 0.05	\$ –	\$ –	\$ –	\$ –	\$ –

Activities during the fourth quarter of 2006 should be noted for comparison with overall results for the fiscal year 2006.

- During the fourth quarter ending September 30, 2006, the Corporation acquired four new buildings with 87 units.
- Average tenant vacancy rate for the Corporation's properties was 8.5% for the quarter, compared with 8.8% for the fiscal year.
- Heating costs for the quarter were lower than the 2006 average due to warmer summer weather conditions.
- Understatement of depreciation charges for the third quarter 2005 was adjusted in the fourth quarter 2005.

Quarterly information for the quarters ended December 31, 2004 and March 31, 2005 have been restated above to reflect: 1) the change in accounting policy in 2005 for operating and financing costs incurred during the period of renovation of rental units, and 2) results of operations of the disposed long-lived assets reported separately as discontinued operations.

Same Assets Properties

Same assets properties are defined as properties owned by the Corporation for the entire years of 2005 and 2006. As of September 30, 2006, 55 properties (2,667 units) out of 89 properties (4,286 units) were regarded as same assets properties.

<i>(thousands of dollars except per share amount)</i>	2006	2005	% change
Same assets – rental revenues	\$ 22,256	\$ 20,411	9%
Same assets – operating costs	8,362	8,347	–
Same assets – net operating income	\$ 13,894	\$ 12,064	15%

"Same assets" rental revenues increased by 9% to \$22.2 million in 2006 from \$20.4 million in 2005. "Same assets" net operating income increased by 15% to \$13.9 million in 2006 from \$12 million in 2005. The improved performance of same assets properties is mainly attributable to the increase in rental income when more renovated units were returned to the market at higher rents, higher occupancy and lower vacancy rates, particularly in Alberta.

Stabilized Properties

A stabilized property is defined as a property in which 90% of its units have been renovated or repositioned in the market at market rents. As of September 30, 2006, 56 properties (2,425 units) out of 89 properties (4,286 units) were regarded as being stabilized. As previously noted, during the stabilization process Mainstreet's performance is affected adversely due to lower rental income, and higher vacancy rates and operating expenses. A more fair performance measurement of the Corporation is funds from operations from the stabilized properties.

In addition, for comparative purposes, the cost and additional interest expenses of \$757,000 on refinancing \$30 million of mortgages prior to maturity is excluded from the calculation of stabilized funds from operations.

Funds From Operations for Stabilized Properties

	For the three months ended September 30, 2006			For the year ended September 30, 2006		
<i>(thousands of dollars except per share amount)</i>	Stabilized properties	Non- stabilized properties	Total	Stabilized properties	Non- stabilized properties	Total
Rental income	\$ 5,044	\$ 3,519	\$ 8,563	\$ 19,702	\$ 11,203	\$ 30,905
Property operating expenses	1,510	1,559	3,069	6,715	5,933	12,648
Net operating income	3,534	1,960	5,494	12,987	5,270	18,257
Operating margin	70%	56%	64%	66%	47%	57%
Interest income	15	6	21	41	25	66
General & administrative expenses	362	448	810	1,836	1,161	2,997
Financing cost	1,626	1,501	3,127	6,917	4,767	11,684
Current income taxes	20	24	44	120	74	194
Funds from operations from continued operations before convertible debentures	1,541	(7)	1,534	4,155	(707)	3,448
Unallocated funds from operations for convertible debentures			(512)			(2,179)
Funds from operations from continued operations			1,022			1,269
Refinancing cost and interest expenses of refinancing mortgage loans prior to maturity	132		132	757		757
Total funds from operations from continued operations excluding refinancing cost and interest expenses of refinancing mortgage loans prior to maturity	\$ 1,673		\$ 1,154	\$ 4,912		\$ 2,026
Per share – basic	\$ 0.18	\$ –	\$ 0.12	\$ 0.53	\$ (0.08)	\$ 0.22

Funds from operations for Mainstreet's stabilized portfolio, excluding cost and interest expenses of refinancing mortgage loans prior to maturity for the three and twelve month periods ended September 30, 2006 amounted to \$1.7 million (18 cents per basic share) and \$4.9 million (53 cents per basic share). For a more objective performance comparison between the stabilized and non-stabilized segments of the portfolio, the adverse impact of the convertible debenture interest on funds from operations has not been allocated between the stabilized and non-stabilized portfolios.

Acquisitions

GEOGRAPHIC MARKETS

<i>(thousands of dollars except as noted)</i>	2006	2005
	Edmonton and Surrey	Calgary, Edmonton, Surrey and Toronto
Rental units <i>(number)</i>	802	817
Square feet <i>(thousands)</i>	543	753
Total purchase costs ¹	\$ 41,486	\$ 47,114
Average price per unit	\$ 52	\$ 63
Average price per square foot <i>(dollars per square foot)</i>	\$ 76	\$ 58

1. Does not include cost of significant capital improvements.

Mainstreet acquires rental properties that offer high potential to increase both the asset value and long-term rental rates. The Corporation follows strict criteria to identify and acquire these kinds of properties. In 2006, the Corporation purchased 27 buildings in Edmonton and Surrey for \$41.5 million, adding 802 units (543,000 square feet) to its portfolio. The acquired buildings are located in attractive areas of each market, where they can be grouped with nearby Mainstreet properties to achieve operating efficiencies.

The average purchase price per unit was \$52,000, well below the estimated market value and replacement cost.

Divestitures

Mainstreet disposed of a non-strategic, stand-alone asset totaling 66 multi-family residential units located in Red Deer, Alberta for \$3.12 million in March, 2006 – a net gain of \$0.6 million to the Corporation. The purpose of this disposition was to improve operating and management efficiency by focusing Mainstreet's operations in its five core markets.

Liquidity and Capital Resources

WORKING CAPITAL REQUIREMENTS

The Corporation requires sufficient working capital to cover day-to-day operating, mortgage and debenture interest expenses as well as income taxes payments. In 2006, after payments of all required expenses, the Corporation generated funds from operations of \$1.9 million. The Corporation expects that funds generated from operations will be sufficient to meet the working capital requirements in 2007. The Corporation also has an operating line of credit of \$0.8 million and there was no amount drawn against the line of credit as of the year-end date.

OTHER CAPITAL REQUIREMENTS

Mainstreet also requires sufficient capital to finance continued growth and capital improvement. At year-end September 30, 2006, the Corporation had a cash balance of \$14 million and expects to raise a substantial amount of funds by refinancing existing properties as they mature. In addition, after newly acquired properties are stabilized, the Corporation expects to raise funds by refinancing these properties. Mainstreet believes these resources will be sufficient to meet other capital requirements.

Contractual Obligations

As of September 30, 2006, the Corporation had the following contractual obligations. These obligations will be met using existing cash balances, funds from operations and the renewal of mortgage loans on maturity.

PAYMENTS DUE BY PERIOD

<i>(thousands of dollars)</i>	Total	2007	2008	2009	2010	2011	Subsequent
Mortgages payable	\$ 213,341	\$ 89,568	\$ 27,172	\$ 22,202	\$ 7,777	\$ 6,113	\$ 60,509
Debentures	29,415	–	–	–	–	29,415	–
Total contractual obligations	\$ 242,756	\$ 89,568	\$ 27,172	\$ 22,202	\$ 7,777	\$ 35,528	\$ 60,509

Long-term Debt

<i>(thousands of dollars)</i>	Amount	Average interest rate (%)
Fixed rate debt		
– CMHC-insured	\$ 131,996	5.27%
– non-CMHC-insured	7,878	6.52%
Total fixed rate debt	139,874	5.34%
Floating rate debt		
– non-CMHC-insured	73,467	7.04%
	\$ 213,341	5.87%

Long-term debt consists mainly of low-rate, fixed-term mortgage financing. All individual mortgages are secured with their respective real estate assets. Based largely on the market value of properties, Mainstreet believes this financing reflects the strength of its property portfolio. The maturity dates for this debt are staggered to mitigate overall rate risk.

As of September 30, 2006, mortgages payable were \$213 million, compared with \$175 million at September 30, 2005. This increase is the result of the Corporation's continued growth, including refinancing existing debt, raising new mortgage loans, and assuming debt to fund new acquisitions.

At September 30, 2006, the Corporation's financial position was stable with overall mortgage levels reported at 94% of depreciated book value and 41% of estimated market value. About 62% of the Corporation's mortgage portfolio was CMHC-insured, providing Mainstreet with interest rates lower than those available through conventional financing.

To maintain cost-effectiveness and flexibility of capital, Mainstreet continually monitors short-term and long-term interest rates. Where it provides a benefit, the Corporation looks for opportunities to convert short-term floating rate debt to long-term, CMHC-insured fixed debt.

MORTGAGE MATURITY SCHEDULE

Year of maturing	Balance maturing (thousands of dollars)	% of debt maturing	Weighted average rate on expiry (%)
2007	\$ 83,956	39%	7.01%
2008	37,768	18%	5.16%
2009	9,109	4%	4.91%
2010	11,628	5%	4.88%
2011	1,936	1%	6.08%
Subsequent	68,944	33%	5.18%
Total	\$ 213,341	100%	5.87%

Approximately 39% of mortgage loans will mature within the next 12 months, due mainly to the acquisition of non-stabilized properties and financing of those properties through short-term, floating rate loans. When the properties are stabilized, these short-term loans will be refinanced under long-term, CMHC-insured mortgages.

Conclusion Regarding Effectiveness of Disclosure Controls and Procedures

The Corporation's Chief Executive Officer (the "CEO"), Chief Financial Officer (the "CFO") and other key management personnel have conducted an evaluation of the effectiveness of the Corporation's disclosure controls and procedures. Based on the evaluation conducted, the CEO and CFO have concluded that the design and operation of the Corporation's disclosure controls and procedures were effective as at the year-end dated September 30, 2006 to provide reasonable assurance that all material financial information relating to the Corporation, including material financial information that is required to be disclosed, was made known to the CEO and CFO by others within the Corporation in order for them to complete their analysis and review of the financial position and results of the operations of the Corporation for the year ended September 30, 2006. There were no significant changes in Mainstreet's disclosure controls and procedures in 2006.

Share Capital

Authorized:

Unlimited number of common voting shares

Unlimited number of preferred shares

	2006		2005	
	Number of shares	Amount	Number of shares	Amount
<i>(thousands of dollars)</i>				
Issued and outstanding, beginning of the year	9,238,333	\$ 2,050	9,188,333	\$ 1,900
Issued pursuant to exercise of options	—	—	50,000	150
Issued pursuant to conversion of debenture	32,160	201	—	—
Issued pursuant to exercise of brokers' warrant	264,000	1,650	—	—
Issued and outstanding, end of year	9,534,493	\$ 3,901	9,238,333	\$ 2,050

Under a stock option plan adopted in 2000, the Corporation may grant options to directors, officers, employees and consultants of the Corporation and any subsidiary and affiliated company for up to 900,000 shares of common stock. The exercise price of any option shall equal the market-trading price of the Corporation's common shares on the date of grant.

During the year ended September 30, 2006 and 2005, no stock options were granted by the Corporation and there are no stock options currently outstanding.

Significant Accounting Policies

BASIS OF PRESENTATION

These financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"). This requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and to disclose contingent assets and liabilities at the date of the financial statements, as well as amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates.

REVENUE RECOGNITION

Revenue from a rental property is recognized when a tenant begins occupancy of a rental suite and rent is due. Rental revenue includes rent, parking and other sundry revenues. All residential leases are for one-year terms or less and the Corporation retains all of the benefits and risks of ownership of its rental properties and therefore accounts for leases with its tenants as operating leases.

Revenue on property held for development and resale is recognized when all substantial conditions of the purchase agreement have been met, a minimum 15% cash deposit has been received, and collection of the remaining balance is reasonably assured.

REVENUE PRODUCING REAL ESTATE PROPERTIES

Revenue producing real estate properties held as ongoing investments are stated at the lower of cost less accumulated amortization, or "net recoverable amount". Cost includes all expenditures associated with the acquisition of real estate property, including all direct costs. Major capital improvements and replacements are capitalized and amortized over terms appropriate to the expenditure.

Net recoverable amount represents the undiscounted estimated future net cash flows that are directly associated with, and expected to arise as a direct result of, the ongoing use of the property and its eventual disposition. Net recoverable amounts take into account the specific business plan for each property and management's best estimate of the most probable economic conditions expected in each market area. Impairment loss will be recognized in the period when the carrying amount of the revenue producing properties exceeds the net recoverable amount represented by the undiscounted estimated future cash flows expected to be received from the ongoing use of the properties, plus their residual value.

The purchase price of revenue-producing real estate properties is allocated to land, building and intangible assets (such as the value of above and below market leases, the value of in-place leases, origination costs associated with in-place leases and the value of tenant relationships, if any). The value of above and below market leases and origination costs associated with in-place leases are recorded and amortized to rental income over the remaining term of the associated lease. The determined value of tenant relationships is amortized over the expected term of the relationship, which includes an estimate of the probability of the lease renewal and its estimated term.

The Corporation's strategy for creating value focuses on purchasing properties that need considerable capital improvement, which requires the replacement of tenants occupying buildings at the time of acquisition. As a result, the Corporation has established there is little value associated with the above and below value leases, in-place leases or tenant relationships. For these properties, the Corporation has placed a nominal value on acquired tangible assets.

PROPERTIES HELD FOR RESALE

Mainstreet periodically assesses its portfolio to determine whether properties should be retained or sold in order to reinvest capital for greater advantage. When a decision has been made to sell a property, it is transferred to properties held for sale. The Corporation capitalizes property taxes, interest charges and other direct costs, net of any revenue, to properties held for sale. The properties are recorded at the lower of cost or net realizable value.

CASH AND CASH EQUIVALENTS

Cash equivalents are highly liquid investments with an original maturity of three months or less.

AMORTIZATION

Revenue producing real estate properties are amortized at rates designed to amortize the cost of the properties over their estimated useful lives as follows:

Buildings	Over the estimated useful lives, not exceeding 40 years
Building improvements	20% – Declining balance
Equipments and appliances	20% – Declining balance
Painting	40% – Declining balance
Carpets	30% – Declining balance
Furniture and fixtures	20% – Declining balance
Computer equipment	30% – Declining balance

Estimated useful lives of buildings and non-building assets are evaluated periodically by management, and any changes in these estimates are accounted for on a prospective basis.

DEFERRED CHARGES

Deferred charges include mortgage financing costs and associated legal and appraisal fees, Canadian Mortgage and Housing Corporation (CMHC) insurance premiums and fees, and prepaid interest. Upon refinancing, any financing costs associated with previous mortgages are written off to income. Costs of financing are amortized over the terms of the respective mortgages. CMHC insurance premiums are amortized over a period of 25 years.

Stock Option Plan

Mainstreet's stock option plan is described in Note 10 of the Notes to Financial Statements. For stock options issued prior to January 1, 2003, no compensation expense is recognized for the plan when the stock options were granted. Any consideration paid on exercise of stock options is credited to share capital.

For stock options issued after January 1, 2003, the fair value of the stock options is determined at the date of grant using an acceptable option-pricing model. Fair value is recognized as stock compensation expense over the vesting period of the options with a corresponding increase to contributed surplus. No stock options have been issued after January 1, 2003.

Changes in Accounting Policies

To better reflect the economic impact of capital improvements, effective April 1, 2005, the Corporation changed its accounting policy as it relates to property carrying costs incurred during the period of major renovations of buildings and rental units. These improvements usually include new flooring, lighting fixtures, appliances, painting and electrical work. Under the new policy, carrying costs consisting of financing and certain operating costs such as property taxes, insurance and utilities, incurred during the period of renovation but in any event no longer than three months are capitalized as part of real estate property building improvements. Such capitalized costs are amortized over their estimated useful life of five years. The new policy has been applied retroactively with restatement of prior period financial statements. The cumulative effect of the change in accounting policy is to increase real estate properties and retained earnings, as at September 30, 2006 in the amount of \$1,376,000. The effects of the change on prior years are as follows:

	2006	2005
Increase in real estate properties	\$ 535	\$ 115
Decrease in property operating expense	(335)	(145)
Decrease in finance cost	(447)	(144)
Increase in depreciation	247	174
Decrease in net loss	\$ (535)	\$ (115)
Decrease in loss per share		
– basic	\$ (0.06)	\$ (0.01)
– diluted	\$ (0.06)	\$ (0.01)

Financial Instruments

Mainstreet completed a private placement of \$33 million in convertible debentures in October 2004, following fiscal year-end. The debentures have a seven-year term, bear a coupon of 7.25% and are convertible into common shares at a price of \$6.25 per share at the option of the debenture holders. Additional information concerning the convertible debentures is described in Note 7 of the Notes to the Financial Statements.

Transactions with Related Parties

The President and Chief Executive Officer receives no compensation for his services as an officer of the Corporation. Instead he receives commissions at commercial rates in his capacity as a licensed broker for the property transactions conducted by the Corporation. Commissions received in 2006 amounted to \$381,000 (2005 – \$466,000).

Mainstreet paid legal and professional fees and reimbursements totaling \$159,000 (2005 – \$41,000) to a law firm of which a director and officer of the Corporation is a partner.

The Corporation has established a plan to assist its directors, officers and employees in purchasing common shares of the Corporation. Total loans of \$1.25 million (2005 – Nil), included in other assets, were advanced on October 31, 2005. The loans are interest free with a repayment period over four years and secured against the common shares purchased by participants.

Proposed Transactions

Subsequent to the year-end September 30, 2006, and to the date on which the Board of Directors approved these financial statements on December 8, 2006, the Corporation acquired two properties in Saskatoon, Saskatchewan, and Edmonton, Alberta, consisting of 229 units of residential apartments for consideration of \$11.3 million. The acquisitions were financed through a combination of cash and mortgages. The transactions were completed on November 1, 2006 and December 1, 2006, respectively.

Risk Management

VACANCY RISK

The Corporation is subject to tenant vacancy risk when renters become first time home buyers by purchasing low-cost housing, which, in some markets, is affordable at today's low interest rates. This contributes to increased vacancy rates and decreased rental income cash flow.

Vacancy rates can be affected negatively by increased supply of condominium units in major market areas. At the same time, lower interest rates encouraged some tenants to purchase homes for the first time.

The Corporation manages this risk by enhancing customer satisfaction, diversifying its portfolio in different geographic markets in Canada, maintaining its focus on affordable mid-market, multi-family accommodation, offering competitive pricing and a quality product to attract new tenants, and advertising and marketing effectively.

FINANCIAL RISK

The Corporation is subject to the financial risk of having unoccupied units during extended periods of renovations. During renovations, these properties are unavailable for occupancy and do not generate income. Mainstreet addresses this risk by acquiring financing to fund renovations and by carrying out a detailed capital expenditures budget to monitor its cash position on a monthly basis.

INTEREST RISK

Mainstreet is exposed to interest rate risk when there is any upward revision in prime lending rates. Mortgages totaling \$84 million are subject to renewal during the 2007 fiscal year. Increases in the interest rate may adversely affect the profitability of the Corporation. The Corporation works to mitigate this risk by staggering the maturity dates of its mortgages, the majority of which are insured by CMHC under the National Housing Association (NHA) mortgage program. This added level of insurance offered to lenders allows Mainstreet to receive the best possible financing and interest rates, and significantly reduces the potential for a lender to call a loan prematurely.

UTILITY RISKS

Variable utility and energy costs such as electricity and natural gas (heating) prices create risk for the business. Mainstreet closely tracks gas prices and, when they are more favourable, seeks long-term contracts to secure those prices for extended periods. In addition, installing energy-saving measures in all buildings during renovations is a key priority.

CREDIT RISK

Sometimes tenants experience financial difficulty and default in payment of rent, which exposes Mainstreet to credit risk. The Corporation attempts to minimize this risk by conducting an in-depth credit assessment of all tenants. The Corporation's sizable tenant base also helps reduce the degree of credit risk.

Outlook

In 2007, Mainstreet will focus on these objectives:

- **Continued growth.** Using the current cash surplus of \$14 million, Mainstreet anticipates it will concentrate on acquiring properties in Vancouver/Lower Mainland, Edmonton, Greater Toronto Area and the Corporation's new core area in Saskatoon, Saskatchewan (see *Geographic Diversification* on page 18). The Corporation will continue to stabilize its newly acquired properties as quickly as possible to bring added rental revenues on-stream.
- **Attractive refinancing.** Mainstreet has \$73 million (34% of mortgage loans) in floating loans at short-term interest rates, which are approximately 2.8% higher than the long-term CMHC rate. Mainstreet also has approximately \$49 million (23% of mortgage loans) maturing over the next three to 24 months. The Corporation plans to refinance most of these mortgage loans with longer-term CMHC-insured mortgages in 2007, at interest rates lower than the current commitments on those loans. Mortgage rates peaked in September 2006, but are expected to remain low, easing by up to 75 basis points over the next two to three quarters. (*Data source: Canada Mortgage and Housing Market Outlook, Fall 2006*)
- **Rental increases.** As of October 1, 2006, Mainstreet had already increased the rental rate of the Calgary portfolio by about 39% compared to 2005. Ninety-three per cent of the rent increase has been implemented during the first two months of the fiscal year 2007. Mainstreet is currently reviewing the rental rates of its Edmonton portfolio and expects to have a substantial increase in those rental rates. Implementation of the Edmonton rent increases is expected in the second quarter of 2007. Rental income in the British Columbia and Ontario portfolios is also expected to grow when more suites are renovated and introduced to the market at higher rental rates.

Mainstreet's goal is to become the market leader in mid-market rental products. Because of its depth of experience, proven management team, and systems and processes, management expects to continually find high-potential opportunities in all types of market conditions. Mainstreet's strategy of creating and offering an attractive, branded rental product will continue to provide a desirable product to this mid-market segment that is typically neglected.

MARKET CONDITIONS

Management is confident Mainstreet will achieve these objectives because it believes it has demonstrated its ability to create value, and market fundamentals are stronger than ever. For example, Calgary's current vacancy rate was expected to drop to 0.6% by October 2006 (it averaged 1.6% in 2005). With only about 46,000 units of apartment rental inventory (as of October 2005), and an influx of close to 26,000 new people, Mainstreet believes the market fundamentals are getting even stronger for 2007.

Similar conditions are expected for Edmonton, with increased demand and a forecast vacancy rate of 1.2% in 2007 compared to 4.5% in October 2005. The rental market in Vancouver also will remain tight, with the vacancy rate expected to drop slightly to 1.0% in 2007.

(*Data source: Canada Mortgage and Housing Market Outlook, Fall 2006*)

GEOGRAPHIC DIVERSIFICATION

Mainstreet believes its portfolio is well-positioned in some of the most attractive mid-market rental markets in Canada. The majority (about 67%) of Mainstreet's portfolio is situated in Alberta, which continues to lead the country in economic and employment growth, driven largely by the global demand for the province's oil and natural gas resources.

The Corporation expects to continue its efforts to expand its presence in other geographic markets such as the Greater Toronto Area and the Vancouver/Lower Mainland (Surrey). These continue to be among the best Canadian areas for strong and diverse economies, population growth, capital appreciation and upward potential on rents – all requisites for growth in the real estate business. (*Data Source: Statistics Canada, CMHC*)

Subsequent to year-end September 30, 2006, the Corporation acquired 165 units of residential property in Saskatoon, Saskatchewan. The Corporation is confident this is an excellent opportunity to expand its geographic diversification, and expects to benefit from the increasingly growing economy in Saskatchewan.

ADDITIONAL INFORMATION

Additional information about Mainstreet is available at mainst.biz and www.sedar.com.

Management's Report

To the Shareholders of Mainstreet Equity Corp.:

The management of Mainstreet Equity Corp. is responsible for the preparation and content of the financial statements. The financial statements have been prepared in accordance with generally accepted accounting principles.

Management has implemented a system of internal controls that are designed to provide reasonable assurance that transactions are properly authorized, financial reporting responsibilities are met and assets of the corporation are safeguarded against theft.

The financial statements have been audited by Deloitte & Touche LLP, the independent auditors, in accordance with generally accepted auditing standards. The Audit Committee recommended their approval of the statements to the Board of Directors. The Board of Directors has approved the financial statements on the recommendation of the Audit Committee.



Bob Dhillon
Director



Joe Amantea
Director

Auditors' Report

To the Shareholders of Mainstreet Equity Corp.:

We have audited the balance sheets of Mainstreet Equity Corp. as at September 30, 2006 and 2005 and the statements of loss, retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at September 30, 2006 and 2005 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.



Deloitte & Touche LLP
Chartered Accountants

November 25, 2006
Calgary, Alberta

Balance Sheets

(thousands of dollars)

As at	September 30, 2006	September 30, 2005
ASSETS		
Real estate properties (Note 3)	\$ 228,165	\$ 189,138
Other assets (Note 4)	3,459	1,514
Future income tax recoverable (Note 8)	1,879	–
Deferred charges	4,871	4,763
Restricted cash (Note 5)	1,357	903
Cash	14,043	18,519
	<u>\$ 253,774</u>	<u>\$ 214,837</u>
LIABILITIES		
Mortgages payable (Note 6)	\$ 213,341	\$ 175,010
Convertible debenture (Note 7)	29,415	29,091
Accounts payable	3,387	2,117
Refundable security deposits	1,357	903
Future income taxes	–	164
	<u>\$ 247,500</u>	<u>\$ 207,285</u>
SHAREHOLDERS' EQUITY		
Share capital (Note 9)	\$ 3,901	\$ 2,050
Equity component of convertible debenture	4,032	4,047
Retained earnings (deficit)	(1,659)	1,455
	<u>6,274</u>	<u>7,552</u>
	<u>\$ 253,774</u>	<u>\$ 214,837</u>

See accompanying notes to the financial statements.



Bob Dhillon
Director



Joe Amantea
Director

Statements of Loss and (Deficit)/Retained Earnings

(thousands of dollars, except per share amounts)

For the years ended September 30,	2006	2005
Revenue		
Rental income	\$ 30,905	\$ 23,475
Gain on disposition of a real estate property	–	77
Interest income	577	652
	31,482	24,204
Expenses		
Property operating expenses	12,981	9,786
Utility rebate	(333)	(124)
General and administrative expenses	2,997	2,078
Financing costs	14,884	11,527
Depreciation	6,443	5,210
	36,972	28,477
Loss before income taxes	(5,490)	(4,273)
Income taxes (recovery) expense (Note 8)		
– current	194	365
– future	(2,140)	(1,189)
	(1,946)	(824)
Net loss from continuing operations	(3,544)	(3,449)
Net income (loss) from discontinued operations (Note 12)	430	(20)
Net loss for the period	(3,114)	(3,469)
Retained earnings, beginning of period	1,455	4,924
(Deficit) Retained earnings, end of period	\$ (1,659)	\$ 1,455
Loss per share – basic and diluted (Note 11)		
– from continuing operations	\$ (0.38)	\$ (0.38)
– from discontinued operations	\$ 0.05	–
Loss per share – basic and diluted	\$ (0.33)	\$ (0.38)

See accompanying notes to the financial statements.

Statements of Cash Flows

(thousands of dollars, except per share amounts)

For the years ended September 30,	2006	2005
Cash obtained from (used in):		
Operating activities		
Net loss	\$ (3,114)	\$ (3,469)
Items not affecting cash		
(Earning) loss from discontinued operations, net of tax	(430)	20
Accretion of debentures charged to interest	510	457
Depreciation	6,443	5,210
Future income taxes	(2,140)	(1,189)
	\$ 1,269	\$ 1,029
Funds from discontinued operations	(11)	21
Net change in non-cash operating balances	(689)	(625)
Cash flow from operating activities	569	425
Financing activities		
Financing of real estate properties	78,000	54,722
Repayment of secured debts on revenue producing properties, and other debts	(44,846)	(26,196)
Issue of shares	1,650	150
Issue of convertible debenture – equity component (net of issue cost)	–	4,047
Issue of convertible debenture – liability component (net of issue cost)	–	28,634
Redemption of debenture	–	(1,000)
Deferred charges (net of amortization)	(162)	(2,073)
	34,642	58,284
Investing activities		
Net proceeds on sale of real estate property	2,978	–
Purchase of and addition to real estate properties	(42,665)	(40,408)
	(39,687)	(40,408)
Net (decrease) increase in cash and cash equivalents	(4,476)	18,301
Cash and cash equivalents, beginning of period	18,519	218
Cash and cash equivalents, end of period	\$ 14,043	\$ 18,519
Cash and cash equivalents (bank indebtedness) comprise of:		
Cash (bank indebtedness)	\$ (34)	\$ 163
Short-term deposits	\$ 14,077	\$ 18,356
	\$ 14,043	\$ 18,519
Income taxes paid	\$ 353	\$ 267
Interest paid	\$ 13,652	\$ 10,575

See accompanying notes to the financial statements.

Notes to Financial Statements

For the years ended September 30, 2006 and 2005

(Tabular amounts in thousands of dollars)

1. Significant accounting policies

GENERAL

Mainstreet Equity Corp. (the "Corporation") is a real estate corporation specializing in the acquisition and rental of multiple unit residential buildings.

BASIS OF PRESENTATION

These financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"), which requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and to make disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates.

REVENUE RECOGNITION

Revenue from a rental property is recognized when a tenant commences occupancy of a rental suite and rent is due. All residential leases are for one-year terms or less and the Corporation retains all of the benefits and risks of ownership of its rental properties and therefore accounts for leases with its tenants as operating leases. Rental revenue includes rent, parking and other sundry revenues.

Revenue on property held for development and resale is recognized when all substantial conditions of the purchase agreement have been met, a minimum 15% cash deposit has been received, and collection of the remaining balance is reasonably assured.

REVENUE PRODUCING REAL ESTATE PROPERTIES

Revenue producing real estate properties held as ongoing investments are stated at the lower of cost less accumulated amortization, or "net recoverable amount". Cost includes all expenditures incurred in connection with the acquisition of real estate property including all direct costs. Major capital improvements and replacements are capitalized and amortized over terms appropriate to the expenditure.

The net recoverable amount represents the undiscounted estimated future net cash flows that are directly associated with, and that are expected to arise as a direct result of the ongoing use of the property and its eventual disposition. The net recoverable amounts take into account the specific business plan for each property and management's best estimate of the most probable set of economic conditions anticipated to prevail in the market area. Impairment loss will be recognized in the period when the carrying amount of the revenue producing properties exceeds the net recoverable amount represented by the undiscounted estimated future cash flows expected to be received from the ongoing use of the properties plus their residual value.

The purchase price of revenue producing real estate properties are allocated to land, building and intangible assets (such as the value of above and below market leases, the value of in-place leases, origination costs associated with in-place leases and the value of tenant relationships, if any). The value of above and below market leases and origination costs associated with in-place leases are recorded and amortized to rental income over the remaining term of the associated lease. The value associated with the tenant relationships is amortized over the expected term of the relationship, which includes an estimate of the probability of the lease renewal and its estimated term.

The Corporation frequently purchases properties requiring a considerable amount of capital improvement. This often involves the replacement of tenants occupying buildings at the time of acquisition. Upon review of the leases and the tenants' relationships relating to the acquired buildings, the Corporation has established that there is little value associated with the above and below value leases, in-place leases or tenant relationships. For these properties, the Corporation has placed a nominal value on the tangible assets acquired through acquisitions.

PROPERTIES HELD FOR RESALE

Periodically, the Corporation makes an assessment of its portfolio and determines whether such properties should be retained or sold in order to redeploy capital. When a determination is made to sell a property it is transferred to properties held for sale. The Corporation capitalizes property taxes, interest charges and other direct costs, net of any revenue, to properties held for sale. The properties are recorded at the lower of cost or net realizable value.

CASH AND CASH EQUIVALENTS

Cash equivalents are highly liquid investments with an original maturity of three months or less.

AMORTIZATION

Revenue producing real estate properties are amortized at rates designed to amortize the cost of the properties over their estimated useful lives as follows:

Buildings	Over the estimated useful lives, not exceeding 40 years
Building improvements	20% – Declining balance
Equipments and appliances	20% – Declining balance
Painting	40% – Declining balance
Carpets	30% – Declining balance
Furniture and fixtures	20% – Declining balance
Computer equipment	30% – Declining balance

Estimated useful lives of buildings and non-building assets are periodically evaluated by management and any changes in these estimates are accounted for on a prospective basis.

DEFERRED CHARGES

Deferred charges include mortgage financing costs and associated legal and appraisal fees, Canadian Mortgage and Housing Corporation (CMHC) insurance premium and fees and prepaid interest. Upon refinancing, any financing costs associated with previous mortgages are written off to income. Costs of financing are amortized over the terms of the respective mortgages. CMHC insurance premiums are amortized over the amortization period of 25 years.

STOCK OPTION PLAN

The Corporation has a stock option plan, which is described in Note 10. For stock options issued prior to January 1, 2003, no compensation expense is recognized for the plan when the stock options are issued. Any consideration paid on exercise of stock options is credited to share capital.

For stock options issued after January 1, 2003, the fair value of the stock options is determined at the date of grant using an acceptable option pricing model. The fair value is the recognized as stock compensation expense over the vesting period of the options with a corresponding increase to contributed surplus. No stock options have been issued after January 1, 2003.

RISK MANAGEMENT

VACANCY RISK

The Corporation is subject to tenant vacancy risk when renters become first time home buyers, purchasing low-cost housing/condominiums, which, in some markets, are affordable at today's low interest rate. This creates increased vacancy rates and decreased rental income cash flow.

Vacancy rates can be affected negatively by increased supply of condominium units in major market areas, at the same time, lower interest rates encouraged some tenants to purchase homes for the first time.

The Corporation manages this risk by enhancing customer satisfaction, diversifying its portfolio in different geographic markets in Canada, maintaining its focus on affordable mid-market, multi-family accommodation, and advertising and offering competitive pricing to attract new tenants.

FINANCIAL RISK

The Corporation is subject to the financial risk of having unoccupied units during extended periods of renovations. During renovations, these properties are unavailable for occupancy and do not generate income. Mainstreet addresses this risk by acquiring financing to fund renovations and by carrying out a detailed capital expenditures budget to monitor its cash position on a monthly basis.

INTEREST RISK

The Corporation is exposed to interest rate risk to the extent of any upward revision in prime lending rates. Mortgages totaling \$84 million are subject to renewal in the next year. Increases in the interest rate may adversely affect the profitability of the Corporation. However, the Corporation attempts to mitigate this risk by staggering the maturity dates for its mortgages. The majority of the Company's mortgages are insured by CMHC under the National Housing Association (NHA) mortgage program. This added level of insurance offered to lenders allow the Corporation to receive the best possible financing and interest rates, and significantly reduces the potential for a lender to call a loan prematurely.

UTILITY RISKS

The business is also exposed to fluctuating utility and energy costs such as electricity and natural gas (heating) prices. Mainstreet closely monitors natural gas prices and, when prices are more attractive, seeks long-term contracts to secure those prices for extended periods. In addition, installing energy-saving measures in all buildings during renovations is a key priority.

CREDIT RISK

The Corporation is exposed to credit risk as some tenants may experience financial difficulty and may default in payment of rent. However, the Corporation attempts to minimize possible risks by conducting an in-depth credit assessment of all tenants. The Corporation's tenants are numerous which also reduces the concentration of credit risk.

FAIR VALUE

	2006		2005	
	Carrying value	Fair market value	Carrying value	Fair market value
Mortgages payable	\$ 213,341	\$ 217,208	\$ 175,010	\$ 178,383
Convertible debentures	\$ 29,415	\$ 29,415	\$ 29,091	\$ 29,091

EARNINGS PER SHARE

Basic net (loss) earnings per share is calculated based on the weighted average number of shares outstanding. Fully diluted earnings per share reflect the dilutive effect of the exercise of the options outstanding as at the balance sheet date. The dilutive effect of outstanding share purchase options are computed using the "treasury stock" method whereby the proceeds that would be received from the exercise of options are assumed to be used to repurchase outstanding shares of the Corporation.

USE OF ESTIMATES

Financial statements prepared in accordance with Canadian generally accepted accounting principles require management to make estimates and assumptions which can affect the reported amount of assets and liabilities, and the reported amounts of revenues and expenses during the reporting period. Assumptions underlying the economic useful life of buildings for purposes of calculating amortization, estimates of net recoverable amounts and asset valuations are limited by the availability of reliable comparable data and the uncertainty of predictions concerning future events. Actual results may vary from those estimates.

2. Changes in accounting policies

Effective April 1, 2005, the Corporation changed its accounting policy with respect to property carrying costs incurred during the period of major renovations of apartment suites, to better reflect the economic impact of major property and apartment suite renovations. Such major renovations usually consist primarily of new flooring, lighting fixtures, appliances, painting and electrical work. Under the new policy, carrying costs consisting of financing and certain operating costs such as property taxes, insurance and utilities, incurred during the period of renovation but in any event no longer than three months are capitalized as part of real estate property building improvements. Such capitalized costs are amortized over their estimated useful life of five years. The Corporation applied the new policy retroactively with restatement of prior period financial statements. The cumulative effect of the change in accounting policy is to increase real estate properties and retained earnings, as at September 30, 2006 in the amount of \$ 1,376,000. The effects of the change on prior years are as follows:

	2006	2005
Increase in real estate properties	\$ 535	\$ 115
Decrease in property operating expense	\$ (335)	\$ (145)
Decrease in finance cost	\$ (447)	\$ (144)
Increase in depreciation	\$ 247	\$ 174
Decrease in net loss	\$ (535)	\$ (115)
Decrease in loss per share		
– basic	\$ (0.06)	\$ (0.01)
– diluted	\$ (0.06)	\$ (0.01)

3. Real estate properties

	2006			2005		
	Cost	Accum. amortization	Net book value	Cost	Accum. amortization	Net book value
Land	\$ 68,791	\$ –	\$ 68,791	\$ 51,996	\$ –	\$ 51,996
Buildings	159,033	11,492	147,541	135,712	7,798	127,914
Building improvements	21,473	10,250	11,223	16,675	7,947	8,728
Furniture and fixtures	1,081	471	610	819	319	500
	\$ 250,378	\$ 22,213	\$ 228,165	\$ 205,202	\$ 16,064	\$ 189,138

ACQUISITIONS OF APARTMENT BUILDINGS

	2006	2005
Mortgages arranged	\$ 28,121	\$ 28,638
Debt assumed at fair value	3,176	8,058
Cash paid	10,189	10,418
Total purchase price	\$ 41,486	\$ 47,114

ALLOCATION OF THE PURCHASE PRICE

Land	\$ 17,465	\$ 15,122
Buildings	24,021	31,992
	\$ 41,486	\$ 47,114
Units acquired	802	817

The properties purchased during the year required a considerable amount of capital improvements. Efforts are currently underway to remove the current tenant base and to begin renovating the properties. As such, upon review of the leases and the tenant relationships relating to the buildings acquired, the Corporation has established that there is no significant value associated with above and below value leases, in-place leases or customer relationships associated with the properties. Therefore, the Corporation has placed a minimal value on the intangible assets acquired on acquisition.

DISPOSITION

	2006	2005
Net cash received	\$ 440	\$ 1,797
Debt assumed at fair value	2,538	—
Net proceeds	2,978	1,797
Net book value	2,396	1,720
Gain on disposition	\$ 582	\$ 77
Units disposed	66	31

During the financial year ended September 30, 2005, the Corporation acquired a 31 unit apartment building for \$1,720,000 and disposed it at the same time for \$1,797,000, resulting a gain before income tax of \$77,000. As the property was not operated by the Corporation, there are no discontinued operations.

4. Other assets

	2006	2005
Accounts receivable	\$ 260	\$ 260
Other receivable	612	380
Loans to employees	1,250	—
Deferred rent concession	96	67
Deposits and prepayments	1,241	807
	\$ 3,459	\$ 1,514

5. Restricted cash

Restricted cash represents deposits from tenants for apartment security deposits.

6. Mortgages payable

Mortgages payable bearing interest at a weighted average rate of 5.87% (2005 – 5.4%) per annum, are payable in monthly principal and interest installments totalling \$1,178,000 (2005 – \$ 1,003,000), maturing from 2006 to 2018 and are secured by specific charges against specific properties, having a carrying value of \$228,165,000 (2005 – \$189,138,000), and several personal guarantees of certain directors to the extent of \$31,594,000 (2005 – \$31,568,000).

	2006	2005
	\$ 213,341	\$ 175,010

Estimated principal payments required to retire the mortgage obligations are as follows:

Year	Amount
2007	\$ 89,568
2008	27,173
2009	22,202
2010	7,777
2011	6,113
Subsequent	60,508
	\$ 213,341

7. Convertible debentures

On October 8, 2004, the Corporation completed a private placement of 33,000, 7.25% convertible debentures at a price of \$1,000 per debenture for the total gross proceeds of \$33,000,000. The debentures are unsecured and ranked subordinate to all liabilities of the Corporation. The debentures mature on September 30, 2011, and interest is payable semi-annually on March 31 and September 30. The debentures will be convertible at the holder's option into fully-paid common shares at any time prior to the close of business on the earlier of the maturity date and the business day immediately preceding the date fixed for redemption at the conversion price of \$6.25 per share. The debentures will not be redeemable on or before September 30, 2007. On and after September 30, 2007 and prior to September 30, 2009, the debentures may be redeemed in whole or in part at the option of the Corporation at a price equal to their principal amount plus accrued and unpaid interest provided that the market price of the share is not less than 125% of the conversion price. On and after September 30, 2009 and prior to the maturity date, the debentures may be redeemed in whole or in part at the Corporation's option at a price equal to their principal amount plus accrued and unpaid interest. The Corporation has an option to satisfy its obligation to repay the principal or interest amounts of the debentures, in whole or in part, by issuing and delivering to the holders that number of common shares obtained by dividing the principal amount of the debentures by 95% of the current market price of the common share at that time.

8. Income taxes

The income tax provision is comprised as follows:

	2006	2005
Continuing operations	\$ (1,946)	\$ (824)
Discontinued operations	97	(62)
	\$ (1,849)	\$ (886)

The provision for income tax differs from the results which would be obtained by applying the combined federal and provincial income tax rate to (loss) earnings before income taxes. This difference results from the following:

	2006	2005
Statutory tax rate	34.54%	34.54%
Computed expected tax	\$ (1,714)	\$ (1,504)
Non-taxable portion of capital gain	(123)	(13)
Non-deductible interest on convertible debenture	176	157
Others	(382)	98
Adjustment for change in statutory tax rate	–	11
Large corporation tax	194	365
Provision for income tax	\$ (1,849)	\$ (886)

The future income tax liability is comprised of the following:

	2006	2005
Tax assets related to operating losses	\$ (438)	\$ (1,534)
Tax (assets) liabilities related to differences in tax and book basis	(1,441)	1,698
	\$ (1,879)	\$ 164

9. Share capital

Authorized:

Unlimited number of common voting shares

Unlimited number of preferred shares

	2006		2005	
	Number of shares	Amount	Number of shares	Amount
Issued and outstanding, beginning of the year	9,238,333	\$ 2,050	9,188,333	\$ 1,900
Issued pursuant to exercise of options	–	–	50,000	150
Issued pursuant to conversion of debenture	32,160	201	–	–
Issued pursuant to exercise of brokers' warrant	264,000	1,650	–	–
Issued and outstanding, end of year	9,534,493	\$ 3,901	9,238,333	\$ 2,050

During the year ended September 30, 2006 and 2005, there were no stock options granted by the Corporation.

10. Stock option plan

Under the 2000 stock option plan, the Corporation may grant options to its directors, officers, employees and consultants of the Corporation, subsidiary and affiliated company for up to 900,000 shares of common stock. The exercise price of the option shall equal the market trading price of the Corporation's common share on the date of grant.

A summary of the Corporation's stock option plan as of September 30, 2006 and 2005, and changes during the years ended on those dates is presented below:

	2006		2005	
	Number of shares	Weighted average exercise price	Number of shares	Weighted average exercise price
Stock option				
Outstanding, beginning of year	50,000	\$ 3.82	120,000	\$ 3.82
Expired	–	\$ 4.15	(20,000)	\$ 4.15
Exercised	–	\$ 3.00	(50,000)	\$ 3.00
Expired	(50,000)	\$ 5.00	–	\$ –
Options exercisable, end of year	–		50,000	

The following table summarizes information about stock options outstanding at September 30, 2006 and 2005:

Exercise prices	2006		2005	
	Number of shares outstanding at September 30, 2006	Weighted average remaining contractual life	Number of shares outstanding at September 30, 2005	Weighted average remaining contractual life
\$ 5.00	—	—	50,000	0.08 years
	—	—	50,000	0.08 years

All stock options are fully vested.

11. (Loss) earnings per share

Basic (loss) earnings per share are calculated using the weighted average number of shares outstanding during the period.

The treasury stock method of calculating diluted earnings per share is used.

The following table sets forth the computation of basic and diluted earnings per share:

	2006	2005
Numerator		
Net (loss)	\$ (3,114)	\$ (3,469)
Denominator		
– Denominator for basic earnings per share		
Weighted average shares	9,272,540	9,231,758
Effect of diluted earnings per share	—	—
– Denominator for diluted earnings per share	9,272,540	9,231,758
Basic earnings per share	\$ (0.33)	\$ (0.38)
Diluted earnings per share	\$ (0.33)	\$ (0.38)

There were no stock options outstanding at September 30, 2006. Due to reported losses, the dilution calculation does not include 5,247,840 shares reserved for issuance upon conversion of the \$33 million convertible debentures if converted at \$6.25. If included, this item would be anti-dilutive and therefore is not included in the computation of diluted loss per share.

12. Disposal of long-lived assets and discontinued operations

The results of operations associated with the long-lived asset, separately reported as discontinued operations for the current and prior periods are as follows:

	2006	2005
Rental income	\$ 203	\$ 420
Property operating expenses	148	232
Utility rebate	(11)	(5)
General and administrative expenses	20	43
Financing cost	57	129
Depreciation	44	103
	\$ 258	\$ 502

<i>(continued...)</i>	2006	2005
Loss from discontinued operations before income taxes	(55)	(82)
Future income taxes	13	(62)
Loss from discontinued operations	(68)	(20)
Gain on disposition	582	–
Future income taxes	84	–
Gain on disposition after income taxes	498	–
Earnings (loss) from discontinued operations	\$ 430	\$ (20)

13. Guarantees

In the normal course of business, the Corporation enters into various agreements that may contain features that meet the AcG-14 definition of a guarantee. AcG-14 defines a guarantee to be a contract (including an indemnity) that contingently requires the Company to make payments to the guaranteed party based on (i) changes in an underlying interest rate, foreign exchange rate, equity or commodity instrument, index or other variable, that is related to an asset, a liability or an equity security of the counterparty, (ii) failure of another party to perform under an obligating agreement or (iii) failure of a third party to pay its indebtedness when due.

In the ordinary course of business, the Corporation provides indemnification commitments to counterparties in transactions such as credit facilities, leasing transactions, service arrangements, director and officer indemnification agreements and sales of assets. These indemnification agreements require the Corporation to compensate the counterparties for costs incurred as a result of changes in laws and regulations (including tax legislation) or as a result of litigation claims or statutory sanctions that may be suffered by a counterparty as a consequence of the transaction. The terms of these indemnification agreements will vary based on the contract and do not provide any limit on the maximum potential liability. Historically, the Corporation has not made any significant payments under such indemnifications and no amount has been accrued in the financial statements with respect to these indemnification commitments.

14. Commitments and contingencies

In the normal course of operations, the Corporation will become subject to a variety of legal and other claims against the Corporation. Management and the Corporation's legal counsel evaluate all claims on their apparent merits, and accrue management's best estimate of the estimated costs to satisfy such claims. Management believes that the outcome of legal and other claims filed against the Corporation will not be material.

15. Related party transactions

- a) The President and Chief Executive Officer receives no compensation for his services as an officer of the Corporation; rather, he receives commissions at commercial rates in his capacity as a licensed broker for the property transactions conducted by the Corporation. The commissions received during the year amounted to \$381,000 (2005 – \$466,000).
- b) The Corporation paid legal and professional fees and reimbursements amounting to \$159,000 (2005 – \$41,000) to a law firm of which a director and officer of the Corporation is a partner.
- c) The Corporation has established a plan to assist its directors, officers and employees in purchasing common shares of the Corporation. Total loans of \$1.25 million (2005 – Nil), included in other assets, were advanced on October 31, 2005. The loans are interest free with a repayment period over four years and secured against the common shares of the Corporation purchases by the participants.

16. Banking Facilities

The Corporation has an operating line of credit of \$820,000 carrying interest at prime rate. As at September 30, 2006, no amount had been drawn on this line of credit (2005 – Nil). General security agreement with charges

against three specific properties, demand debenture in the amount of \$1,200,000 and assignment of rents are given as collateral for this line of credit.

17. Utility rebate

Utility rebate represents rebates on natural gas prices given by the Alberta Government.

18. Segmented information

The Corporation specializes in multi-family residential housing and as of September 30, 2006 operated primarily within the mid-market segment in three provinces in Canada. The following summary presents segmented financial information for the Corporation's operations by geographic location:

	2006	2005
Alberta		
Rental income	\$ 19,721	\$ 16,133
Operating expenses	6,969	6,000
Net operating income	12,752	10,133
Gain on disposition of a real estate property	–	77
Identifiable assets and liabilities		
Real estate properties	135,220	107,615
Mortgages payable	136,686	106,907
British Columbia		
Rental income	5,716	2,932
Operating expenses	2,549	1,095
Net operating income	3,167	1,837
Identifiable assets and liabilities		
Real estate properties	50,451	39,147
Mortgages payable	40,487	31,620
Ontario		
Rental income	5,468	4,410
Operating expenses	3,130	2,567
Net operating income	2,338	1,843
Identifiable assets and liabilities		
Real estate properties	42,494	42,376
Mortgages payable	36,168	36,483
Total		
Rental income	30,905	23,475
Operating expenses	12,648	9,662
Net operating income	18,257	13,813
Gain on disposition of real estate property	–	77
Identifiable assets and liabilities		
Real estate properties	228,165	189,138
Mortgages payable	\$ 213,341	\$ 175,010

19. Subsequent events

Subsequent to the year-end September 30, 2006, and the date on which the Board of Directors approved these financial statements on December 8, 2006, the Corporation acquired two properties consisting of 229 units of residential apartments for consideration of \$11.3 million in Saskatoon, Saskatchewan and Edmonton, Alberta. The acquisitions were financed through a combination of cash and mortgages. The transactions were completed on November 1, 2006 and December 1, 2006 respectively.

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